

## Capital Cashflow Considerations

**1.1** The following model was assessed by the Council's Finances Department and sought to answer two fundamental questions:

1. Does the cashflow of the build project create an unacceptable revenue pressure until the sales are completed and the centre is viable?
2. Is a new centre viable on an ongoing basis once up and running with the borrowing reduced following the sales of Goresbrook and the current Abbey sites?

## **2 Capital Cashflow**

**2.1** The capital cashflow considers the timings of monies in and out and the revenue impact of those capital flows. The significant variable is receipt from the sale of the Goresbrook site as that dictates the level and timing of the borrowing to finance the build project.

**2.2** To enable the cashflow to be modelled, certain assumptions have been made:

- The capital cost is based on the build project at Becontree Heath Leisure Centre
- The build project and payments commence in December 2012 to open in November 2014
- The capital receipt for Goresbrook is £5m (linked to scenarios 1 and 2 in section 3)
- The capital receipt for the existing Abbey site is £1m and received six months after the opening of Axe Street
- Borrowing taken at the optimal point in the cash flow to reduce borrowing costs which varies according to the assumed timing of the sale of Goresbrook
- There is an assumption that seventy per cent of memberships transfer from Goresbrook to Abbey (and then Axe Street) which generates a positive cashflow for the project as additional income along with savings from the closure of the centre
- Due to lifespan of the centre being 25 years there is a 9% interest charge (5% interest and 4% principal repayment).
- Only estimations of sales have been made up to the end of May 16 to reflect final payment to the contractor

**2.3** The table below illustrates the additional revenue cost resulting from changes in the timing of the receipt from Goresbrook meaning borrowing costs and repayments commence earlier or later dependent on when the receipt comes in.

<b>Goresbrook sold</b>	<b>Cashflow 12/13 £k</b>	<b>Cashflow 13/14 £k</b>	<b>Cashflow 14/15 £k</b>	<b>Cashflow 15/16 £k</b>	<b>Total £k</b>
March 2013	(75)	(90)	360	8	<b>203</b>
September 2013	272	690	360	8	<b>1,330</b>
No sale	272	952	810	458	<b>2,492</b>
April 2015	377	1,132	915	45	<b>2,469</b>

- 2.4** The first three models above assume the centre is closed in September 2012 and the latter in November 2014.
- 2.5** All models have a negative cashflow over the period due to borrowing having to be incurred before the centre opens to generate the additional income to cover the repayment of the debt.
- 2.6** The most favourable position, which is based on the most optimistic assumptions, has a revenue cost across the period of £203k. The early years positive cashflows, from the net saving from closing Goresbrook in September 2012, would have to be taken into a reserve to offset the costs in 2014/15.
- 2.7** This additional revenue cost has not been built into the revenue model below as it would make the modelling too complicated and is for information only.

### **3 Ongoing Revenue Position**

- 3.1** The revenue financial model incorporates both the ongoing costs and income of the proposed leisure centre and the repayment of the borrowing used to fund the capital build. The cost of the build has been based on a detailed feasibility study using the same quality standard as the Becontree Heath Leisure Centre and is estimated at £12.98m.
- 3.2** Different scenarios have been modelled to reflect the potential scale of the capital receipts from the Goresbrook and Abbey sites as well as more optimistic and pessimistic assumptions about the income levels at the new centre.
- 3.3** The table overleaf illustrates the impact of changing these elements of the financial model giving some quantification to the risks attached to the project.

<b>Capital Cost</b>	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>	<b>Scenario 4</b>	<b>Scenario 5</b>	<b>Scenario 6</b>
Goresbrook capital receipt	5,000,000	5,000,000	2,500,000	2,500,000		
Abbey Street capital receipt	1,000,000	1,000,000	500,000	500,000		
S106 funds (already in the reserve, not attached this development)	400,000	400,000	400,000	400,000	400,000	400,000
Borrowing (balancing figure)	6,580,000	6,580,000	9,580,000	9,580,000	12,580,000	12,580,000
<b>Total Capital Cost</b>	<b>12,980,000</b>	<b>12,980,000</b>	<b>12,980,000</b>	<b>12,980,000</b>	<b>12,980,000</b>	<b>12,980,000</b>

### **Revenue Cost**

	<b>1290 New Members, 70% Transfer (589) from Goresbrook</b>	<b>1161 New Members, 50% Transfer (421) from Goresbrook, 10% income reduction</b>	<b>1290 New Members, 70% Transfer (589) from Goresbrook</b>	<b>1161 New Members, 50% Transfer (421) from Goresbrook, 10% income reduction</b>	<b>1290 New Members, 70% Transfer (589) from Goresbrook</b>	<b>1161 New Members, 50% Transfer (421) from Goresbrook, 10% income reduction</b>
<b><u>'Fixed' Elements</u></b>						
Cost of running Axe street	888,389	888,389	888,389	888,389	888,389	888,389
Income from Abbey members transferring (100%/1085)	(279,277)	(279,277)	(279,277)	(279,277)	(279,277)	(279,277)
Savings from Goresbrook closure	(259,000)	(259,000)	(259,000)	(259,000)	(259,000)	(259,000)
<b><u>'Variable' Elements</u></b>						
Income from new memberships	(285,424)	(256,881)	(285,424)	(256,881)	(285,424)	(256,881)
Income from transfer Goresbrook members	(151,608)	(108,364)	(151,608)	(108,364)	(151,608)	(108,364)
Other Axe Street income, e.g. hall hire, swimming lessons	(320,006)	(288,005)	(320,006)	(288,005)	(320,006)	(288,005)
<b>Axe Street Leisure Centre Net Surplus</b>	<b>(406,926)</b>	<b>(303,138)</b>	<b>(406,926)</b>	<b>(303,138)</b>	<b>(406,926)</b>	<b>(303,138)</b>
Cost of repaying borrowing (per year for 25 years)	592,200	592,200	862,200	862,200	1,132,200	1,132,200
<b>Net revenue cost to Council after borrowing</b>	<b>185,274</b>	<b>289,062</b>	<b>455,274</b>	<b>559,062</b>	<b>725,274</b>	<b>829,062</b>

- 3.4** Under each scenario the activities at the new centre, once open, generates a surplus which can contribute to the repayment of the borrowing.
- 3.5** A decision to approve this project would therefore incur a cost of between £185k and £829k which would need to be found from savings elsewhere in Council budgets.
- 3.6** Further work could be done to reduce the size of the build project for the new centre which would reduce the capital cost however this would require further modelling of the impact on income, running expenses and the cost of borrowing.
- 3.7** There may be potential income from other elements of the development, a retail shop and cinema, but these are currently considered to be either cost neutral or deficit producing rather than a generator of additional revenues.

#### **4 Risks and Variables**

- 4.1** The majority of the variables impact, though not necessarily equally, on both the ongoing revenue budget and the initial capital cashflow.
  - 4.1.1** The most significant variable, as illustrated above, for the cashflow relates to the timing of receipt from Goresbrook. The later the receipt, the bigger short term impact revenue impact for the Council. With the property market remaining relatively flat, this is a significant risk.
  - 4.1.2** Similarly, due to market conditions, it is hard to estimate with certainty the level of receipt from Goresbrook. This could be higher or lower than the £5m assumed for this modelling exercise which will impact on the viability of the Axe Street centre as a stand alone proposition. There may be a trade off with the timing risk, e.g. quicker sale for a lower receipt or hold the asset longer for a higher receipt.
  - 4.1.3** Both of the above issues apply to the timing and level of receipt from the current Abbey centre site though, as the estimated receipt is lower and later, the impact is much less significant.
  - 4.1.4** The model assumes that 70% of Goresbrook members and all of the Abbey members will transfer to the new centre. Whilst the latter appears a reasonable assumption, there could be variation on the former, either up or down.
  - 4.1.5** The ongoing model relies on significant growth in and the retention of memberships at that level beyond the initial opening period. Whilst the experience at Becontree Heath is very positive on growth in the early

months, it would be preferable to have evidence of retention over twelve and twenty four month periods.

## **5 Links to the Capital Strategy**

- 5.1** The Council is currently considering its overall capital strategy and how it prioritises its limited resources in line with its stated capital priorities of:
- Schools places
  - Council housing/estate renewal
- 5.2** The scheme at Axe Street, unless it is self financing, should not be reviewed in isolation of the wider capital strategy and capital priorities.

## **6. Conclusions**

- 1 Members should note that the new Axe St centre would be financially viable in terms of running costs assuming membership levels of approximately 2700 and monthly fees of £28.
- 2 Members should note that under all scenarios, there is a short term revenue cost of building Axe Street due to the cost of borrowing ahead of the centre opening and that this would need to be factored into the budget.