

Audit Summary Report

June 2007



Princess Royal Sports Arena

Boston Borough Council

Audit 2006/2007

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Introduction

- 1 The Princess Royal Sports Arena (PRSA) was opened in 2003. It provides athletics, rugby and fitness facilities for both disabled and able bodied men and women. PRSA also provides for other sports, such as badminton, football, multi-sports and social events. It also acts as a base for the local rugby and athletics clubs. It was envisaged that PRSA, would be constructed without the need to borrow funds and once constructed, would break even earning sufficient revenue from activities to cover costs.
- 2 PRSA was conceived in 1997 through the Boston Sports Forum which was an organisation formed to further the interest in sport within the Borough, and of which the Borough Council was a member. The Council has since played a leading role in ensuring the arena was developed, although the facility is now run by a charitable company, The Boston Sports Initiative (BSI).
- 3 The Council originally agreed to contribute £3 million to its construction, but due to rising costs, lower than expected contributions from others and a resultant deficit for each year since opening the Council has ended up providing significant additional financial support than first envisaged.
- 4 We have commented in previous Annual Audit and Inspection Letters (AAIL) on the increasing financial contributions being made by the Council. During the 2005/06 financial year we also received approaches from members of the public expressing general concerns about the clarity of the Council's role in the provision of the PRSA and the impact of continuing financial support on the Council's own finances and the council tax levels.
- 5 In view of our concerns regarding the Council's increasing financial support for PRSA, we scoped a project brief to specifically review four areas of concern. The review is not a detailed investigation into all aspects and history of the PRSA development but is focused on the general concerns raised. These areas are:
 - future liabilities;
 - usage;
 - the Council's role in design and construction; and
 - fund raising.
- 6 A chronology of key events follows the Executive Summary and Way Forward. We then focus on the key areas identified within the project brief. Recommendations are made where appropriate.

Executive summary

- 7 The Council played a leading part in enabling the development of PRSA and Boston now has a modern sports and leisure facility available to be used by local residents and those from further afield.
- 8 In developing plans for PRSA, the Council, at an early stage, committed to supporting the project with a capital grant of £3 million. The development has cost over £2 million more to construct than originally expected and funds expected from other sources have not materialised to the extent projected. As a result, the Council agreed to grant a significant loan of nearly £2 million from capital resources and guarantee loans of currently £1.4 million to ensure that the facility was completed.
- 9 In addition initial estimates of net surpluses being made by the facility over its first years of operation have turned out to be grossly inaccurate. Net running costs are proving significantly greater than first anticipated and have resulted in the Council so far contributing £0.8 million in respect of the first two years of PRSA's operation, and including provision for a further £1.1 million revenue support in its medium term financial plan (MTFP) for the next five years. The Council is contractually committed to funding operational deficits for the first five years until September 2008, which accounts for an estimated £725,000 of the aforementioned £1.1 million.
- 10 The full extent of the financial exposure of the Council should have been more clearly identified in reports to members when decisions on granting additional funding were made, especially with regards to revenue 'operating' support and interest charges.
- 11 Whilst the Council considered the wider outcomes for the community which would arise from its contribution to the project these need to be much more explicitly set out as targets and performance monitored against them in order for the Council to assess the success and overall value for money from its contribution.
- 12 The project was complex and the Council appointed external professional advisors in the development, design and letting of construction contracts, before transferring the appointments to BSI who completed the project. Some reports recommending the appointment of external advisers or extensions to existing contracts, should have usefully contained more financial information, although we have no reason to suspect the appointments were not made for proper reasons.
- 13 For the most part where the Council has entered into contracts appropriate authority has been obtained. However, the interaction of the Council's governance arrangements with those of BSI have not always been clear. We have identified two instances where the Council entered into contracts for a period of months before they were transferred to BSI, but for which we have been unable to trace any approval by the Council.

- 14 Given the significance of the support already given to the facility, and that included in its MTFP, the Council needs to agree the extent of its future involvement in respect of the facility. To do this it needs to clearly identify what it expects in terms of outcomes from the facility, how these fit in with current and future strategies in the area, and consider these against the full likely costs of doing so.
- 15 Officers of the Council acknowledge the need to reassess the approach to leisure provision in the area and we understand that BSI has developed a stabilisation plan which also suggests exploring the possibility of developing a new strategy for the provision of community sports in the Boston area. This coincides with a time of high profile interest in the broader health and well being of Boston residents as highlighted for instance in the recent Sport England Active Survey and in other data.
- 16 The Audit Commission has also recommended in its national report 'Public Sports and Recreation Services' that Councils should improve strategic planning of sports and recreation provision and increase overall efficiency by:
 - assessing current and future sports and recreation needs locally and their relationship to regional and national needs;
 - collaborating with the private, voluntary, health and education sectors and working across administrative boundaries in the planning, procurement and delivery of services;
 - appraising the options for delivering sports and recreation services systematically in an open and transparent way and testing the market to ensure that the best value option is identified; and
 - improving the collection, analysis and use of performance information in order to demonstrate value for money, for example by including financial performance and social outcomes in contracts.
- 17 Such a strategy, formed in accordance with the above principles, would form a stronger basis for the Council to determine its future financial support for wider community sports provision including support for the PRSA.

Way forward

- 18 The project was initiated over a decade ago and has had a complex financing and construction background. In view of this we have identified areas that the Council must take forward in to its future decision making for this area (Future Developments) and areas which it needs to learn from when embarking on other projects (Learning points).

Future developments

- 19 There are a number of key issues the Council will need to resolve in relation to its current and future involvement in the project. These key issues are as follows.
- The Council should develop a clear strategy for the provision of sports and leisure facilities for the local community, taking account of the related health and well being agenda, and re-assess its current approach in the light of this.
 - We recognise that improvements to the MTFP have recently been made, but in deciding the extent to which it wishes to support the PRSA beyond September 2008 the Council should consider fully the financial implications to the Council of future liabilities, including:
 - the full cost of the support, including loan interest funded on behalf of PRSA and other revenue support; and
 - the sensitivity of the above estimates and any potential impact this could have on the Council's financial position.
 - In assessing current and future levels of financial support to PRSA members should receive regular reports which assess usage against agreed and clear targets for:
 - broader outcome objectives the Council wants to achieve in return for its investment and support to the facility, for example usage of the facility by hard to reach groups, achievement of the sports strategy; and
 - the impact usage is having on the level of financial support required by BSI.
 - The Council should routinely monitor BSI budget monitoring reports in order to identify early any variance from the estimated level of financial support required by the Council and the impact of this on the MTFP.
 - The council should ensure that actual and estimated usage levels are robustly generated by BSI and its advisors before agreeing any future financial support.
 - The current position of the potential claim by BSI should be ascertained and reported to Members given that funds were advanced two years ago.

Reflective learning

- 20 In addition there are a number of learning points which should be applied by the Council to any future complex capital scheme.
- Ensure that where decisions to enter into contracts are delegated or where contracts are let without competitive tendering that the full details including the likely amount of the contract are reported to members.
 - When reporting extensions to existing contracts the existing cost and likely future cost be clearly identified in reports.

- Decisions to let contracts in the Council's name are made and reported in accordance with the Council's standing orders even though it may be the intention to transfer the contracts at a later stage.
- 21 We have summarised all of the recommendations made within the report into an action plan appended to this report. Officers have had the opportunity to consider and respond to the recommendations made and these are recorded within the appendix.

Chronology

- 22 In 1997 the Boston Sports Forum, which included representatives from local organisations including the Council, was formed to further the interest of sport within the Borough and identified a gap in the provision of athletics facilities.
- 23 This effectively marked the initiation of what is now the PRSA, which is able to offer comprehensive athletics facilities in the Boston area, along with other sporting and leisure facilities and also provides a base for the local rugby club. It was envisaged at the time that once built, the on going operating costs of the facilities would be met by revenue generated from activities.
- 24 The Council took a leading role in arranging the development of the project and at an early stage committed to contribute £3 million towards the cost of completing the project. It was envisaged that the construction and the operation of the facility once built would be managed by a charitable company formed for the purpose.
- 25 Until the charitable company had been established and developed the Council took a direct role in commissioning and managing the feasibility, design and construction work on the facility. This responsibility was fully transferred to the charitable company by mid 2003.
- 26 The Council appointed external advisors in August 1998 to undertake a feasibility study and business plan to develop the project towards construction. It was envisaged that the project would consist of a feasibility stage and two further design stages leading to commencement of construction which was subsequently undertaken in two phases.
- 27 Housing and Community Services Committee members were satisfied with the feasibility of the project and in July 1999 agreed a budget of £150,000 from the £3 million capital grant commitment to develop the project to Stage 1. The committee agreed to extend the contracts of the existing external advisers to complete this stage. At this stage the estimated capital cost of the project was £6.35 million.
- 28 In December 1999 the Council along with other partners agreed to form BSI, the charitable company which would subsequently become responsible for building and operating the arena facility.
- 29 Stage 1, to develop business plans and progress to initial planning requirements, was effectively completed in March 2000 when Housing and Community Services Committee members approved the progression to Stage 2 of the project with the Council continuing use the existing external advisers. Stage 2 would progress the project to the submission of planning applications and the purchase of land. This stage of the project would also draw on funding received from a charity in addition to the Councils funding.

- 30 The successful completion of Stage 2 would in effect commit the Council and BSI to construction of the arena. The feasibility plan was dependent on attracting capital funding from other sources of approximately £3.5 million besides the funds committed by the Council. The project envisaged the Council buying and owning the land on which the arena would be built.
- 31 In June 2001, during stage 2, the expected project costs had increased to over £10 million and it was decided that a re-design and cost reduction exercise was required. Further external advisors were commissioned to redesign the project in the interests of affordability. This redesign reduced the project costs to around £6.5 million and as a result in June 2001 members approved the purchase of the land by the Council. By February 2002 Stage 2 had been completed.
- 32 In January 2002 the cabinet received a report indicating that once built the facility would be likely to at least break even taking one year with another. In February 2002 Cabinet received a further report which showed that external capital funding had not yet reached anticipated levels, but it was considered that it would materialise once construction had been committed. It was agreed that Phase 1 of construction could go ahead relying on a £0.5 million loan from a charity.
- 33 In July 2002, following a report by officers, the Council's Resources and Organisation Board members raised further concerns about the continuing shortfall in the level of external funding being generated and increasing capital costs. At this time it was still being projected that the facility, once completed would generate a revenue surplus of £398,000 for the first five years of its operation.
- 34 As a result the concerns were referred to the Cabinet and subsequently the Full Council to seek assurance on ten key issues covering the financial viability of the project, clarification of responsibility for the project, facilities to be provided for disabled athletes and other issues. In particular two concerns related to:
- whether increased funding from the council was required; and
 - responsibility for the repayment the loan and associated interest.
- Assurance on all issues was subsequently received by the Council in September 2002 and the project continued.
- 35 So far the Council had entered into contracts with external advisors and some of the initial construction contractors to allow building work to commence. The contracts entered into by the Council were transferred to BSI in June 2003 which effectively transferred responsibility for the project development to BSI. Construction work started in August 2002. During the construction period the BSI Board received progress reports from the external advisors.
- 36 In June 2003 a further report was received by Cabinet members which identified:
- a significant shortfall in expected external financial contributions;
 - increased construction costs of £400,000 over that previously identified in July 2002 for Phase 1; and

- following a tendering exercise to select a leisure facilities operator for the arena, a less optimistic estimate of the cost of operating the facility once completed. This equated to an estimated loss of £325,000 over the first five years rather than previous estimates of surpluses. In total this showed the projection of surplus reported on the 16 July 2002 had been under-estimated by £723,000.
- 37** As a result of the projected shortfall cabinet members agreed to provide a loan of £1.9 million, guarantee two further loans totalling £1.4 million so construction could continue to Phase 2. Cabinet also agreed to a commitment to support 'operating' deficits (which excluded interest charges on its own loan and the two further loans) of the arena over the next five years, which were estimated at £325,000 at the time over the five year period. The report noted that the estimate of £325,000 excluded any financing costs of the £1.9 million loan and recommended a further report to Cabinet for approval of the finally agreed arrangements and the implications for the Councils capital programme. Whilst a report outlining the capital resource requirements for the Council as a result of the above was presented to Cabinet in January 2004, there is no evidence of a report detailing the finally agreed arrangements for assistance before the agreement was finalised in October 2004.
- 38** Phase 1 was completed in September 2003 following which Phase 2 was immediately commenced and subsequently completed in October 2004. Phase 1 of the facilities were officially opened in October 2003.
- 39** From 2004/05 the Council began to fund the 'operating' deficit referred to in the agreement for assistance and in addition commenced payment of the interest charges on the loans on behalf of BSI.
- 40** In January 2005 Cabinet members approved the release of additional funds of up to £50,000 to BSI in order for them to pursue a legal case against the former project management consultants in light of perceived weaknesses in their control of the project. BSI is still considering whether to pursue legal action against the former project management consultants but currently no compensation has been received.
- 41** In February 2006 Cabinet members were informed that the estimated revenue 'operating' deficits had increased from the previously reported £325,000 over five years to £754,000 for the Councils financial years 2005/06 to 2007/08. The report identified that on a comparative basis this was an additional budget gap of £459,000 when compared to the financial provisions within the Councils own MTFP. As a result of this report Members agreed a £289,000 capital contribution in lieu of revenue support for 'operating' deficits.
- 42** In January 2007 members of the Cabinet were informed that the BSI 'operating' deficit had increased further and that during 2006/07 a contribution of £159,000 in addition to that already within the Councils MTFP would be required. Members agreed to the additional financial support.

- 43 The Interim Director of Resources completed a full reconciliation of potential liabilities to BSI with the company's latest business plans. As a result in February 2007 Cabinet members received a further report regarding the BSI 'operating' deficit which identified that further support would be required in the 2007/08 and 2008/09 financial years totalling £184,000. In addition to the revenue support the Council has prudently included the repayment of the £1 million loan made by the charity within its capital programme as a contingency should repayment become necessary under the terms of the guarantee.
- 44 The arena has been fully operational since October 2004 and has so far hosted events for disabled and able bodied athletes as well as providing club facilities for rugby and athletics along with health and leisure opportunities for the general public.

Increasing extent of Council Liabilities

Contributions so far

The decisions made so far by the Council to increase support for BSI have generally been reported appropriately to members but in some cases have not been as clear or transparent as they should have been. So far the Council has contributed £3 million in grant towards the construction of the arena, given a loan of £1.9 million, guaranteed repayment of other loans to BSI totalling up to £1.4 million. It has also, in 2004/05 and 2005/06, supported the revenue 'operating' deficit of BSI by £270,000, financed loan interest costs of £199,000, paid additional revenue costs of £42,000 for BSI and made a further capital contribution in lieu of revenue of £289,000.

- 45 The Council agreed at an early stage to contribute £3 million towards the construction of the arena, and up until 2002 early projections of the annual running costs of the arena, once built, predicted at least a break even position
- 46 On the 9 January 2002 members of the Cabinet received a report entitled 'Finnforest DABSI Arena' which contained a section regarding the 'operating' deficit of the arena, once built. This section reported that in accordance with the draft business plan there was likely to be a projected deficit in the first year of £20,000. It confirmed that this was a cautious view and it was proposed that if any operating deficit arose then this would be underwritten by the use of a 'soft' loan from a charity therefore implying no impact on the Council's own revenue resources. This business plan had been compiled by external advisors appointed by the Council.
- 47 On the 16 July 2002 the Resources and Organisation Board received a report giving the revenue projections associated with the running of the facility. It showed a five year surplus of £398,000 based on business plans prepared by the feasibility and fund raising consultants. Officers were currently exploring the potential to increase the number of paying members likely to be attracted to the arena and therefore generate additional income. It was also reported that the business plan had been assessed by an external expert and issues raised were being discussed with the proposed leisure facilities operator.
- 48 On 3 June 2003 the Cabinet agreed to provide financial assistance to BSI to ensure the completion of Phase 2 of the project and operation of the facility over the first five years. This assistance was in the form of a £1.9 million loan from the Council to BSI, to guarantee two other loans to BSI (one a bank loan of £0.4 million and the other a £1 million loan from a charity) and an agreement to underwrite revenue 'operating' deficits for the first five years. The report to cabinet noted that the operating deficit was now estimated at £325,000 for the first five years and that this estimate did not include the interest costs of the proposed loan from the charity to BSI. It was not clearly reported whether the £325,000 estimate included interest costs associated with the other two loans.

- 49 Given the significance of the value of the interest costs of the loans these should have been quantified at the time and reported to Members. Interest costs were likely to amount to at least £621,000 over the corresponding five year period, as identified in the Councils own MTFP at the time. In addition it would have been useful if the report had set out the potential for the actual "operating" deficit to vary from the estimated figure provided.
- 50 The Cabinet also resolved to receive a further report for approval of the finally agreed arrangements and the implications for the Council's own Capital Programme Strategy. A report covering the latter was presented to cabinet in January 2004 but one detailing the finally agreed arrangements was not reported before the agreement was finalised in October 2004.
- 51 The agreement also confirms that the Council acts as a guarantor for the loan from the charity and the bank loan facilities, currently totalling £1.4 million.
- 52 On the 12 January 2005 the Cabinet received a report identifying progress with the project. It referred to an attached report from BSI on progress with the project and included financial projections showing the five years revenue 'operating' deficit was likely to increase from the originally estimated £325,000 to £437,000.
- 53 The revenue 'operating' deficit of £437,000 excluded the interest charges payable by BSI on the above loans. The interest charges were estimated, in the attached BSI report, at £607,000 which would give a total financial deficit of £1.044 million. The report gave a clear warning of future financial pressures BSI faced.
- 54 During the 2004-05 financial year the Council contributed £65,000 to BSI towards the revenue 'operating' deficit and made additional payments of £84,741 in respect of the interest charges on the BSI loans. The Councils total financial support to BSI in the 2004/05 financial year was therefore £149,741. The Councils MTFP at the time included estimates for financial support for both the revenue 'operating' deficit and the loan interest charges payable by BSI.
- 55 On the 15 February 2006 the Cabinet received a report by the Director of Resources at the time identifying that BSI had revisited its financial projections and had now estimated the revenue 'operating' deficit for the following three financial years (2005/06 to 2007/08) to total £754,000. This estimate covers only the remaining three years of the five year period over which the Council has a contractual commitment to fund the 'operating' deficit. The report identified that the additional projections related to 'operating' deficits only and it is not clearly stated whether these included the interest charges associated with the BSI loans.
- 56 The Council had included £295,000 within its own MTFP to support the revenue 'operating' deficits to BSI over the same three year financial period, but this was now clearly under estimated and an additional budget gap of £459,000 over the remaining three years of the agreement for assistance had materialised.

- 57 In order to minimise the impact on the Council's own revenue position it was agreed that some of the budget gap would be funded by a capital contribution in lieu of revenue support of £289,000 which was paid in 2005/06. The remaining £170,000 budget gap may form the part of any future revenue or capital support required from the Council but this would not be fully known until BSI revisited their future requirements and therefore no further commitment was included within the Council's future MTFP to support this at this stage.
- 58 During 2005-06 the Council contributed £205,000 in revenue 'operating' deficit support, £114,000 in relation to interest charges on the BSI loans, £42,000 in other revenue contributions and has made a capital contribution in lieu of revenue of £289,000, a total of £650,000 financial support.

Future liabilities

Future implications

Given the trend of increased requirements for the financial assistance to support BSI the Council needs to agree its future approach to supporting the PRSA in conjunction with the role the facility may play in the wider health and leisure agenda being pursued by the Council with its partners. The Council has acknowledged this, and is commencing work in this area, and needs to ensure this work is quickly and effectively completed.

- 59 The planned continued revenue support to BSI by the Council between 2006/07 and 2010/11 is shown in the current MTFP and summarised in the table below along side the amounts already paid.

Table 1 Financial support 2004/05 to 2010/11 £000

Year	Already Paid		Projected Support from MTFP (as at 1 December 2006)					Totals
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	
Operating Deficit Support	65	205	90	100	0	0	0	460
Interest Payments	85	114	142	135	103	76	0	755
Other Revenue Support		42						42
Capital Contribution in lieu of Revenue		289						289
Total	150	650	232	235	103	76	0	1548

- 60 If BSI continues to make annual deficits it is likely to result in additional pressure for the Council to provide further support. Acknowledging this the Interim Director of Resources has completed a detailed review of the accounts and business plans of BSI aimed at ensuring that the Councils MTFP comprehensively includes all potential liabilities in respect of BSI. A report to Cabinet members on the 17 January 2007 presenting the Revenue Budget Monitoring for Period 8 contained details of the current MTFP review being undertaken. It identified an additional contribution by the Council of £159,000 to BSI in relation to the 2006/07 'operating' deficit. This contribution is in addition to the £90,000 already contained in the Councils current MTFP from which the figures in Table 1 are taken.
- 61 A later report to Cabinet on the 14 February 2007 identified additional contributions to the 'operating' deficit of £99,000 in 2007/08 and an £85,000 in 2008/09 to be included in the future MTFP.
- 62 In effect the impact of the two reports is to increase the Projected Support within the MTFP by an additional £343,000 over that shown in Table 1 and increases the total financial support to BSI from the Council to £1.891 million. The Councils MTFP now clearly recognises the contractual commitments the Council has to BSI under the terms of the Agreement of Assistance until September 2008 and the projected support beyond then.
- 63 Along with making additional allowances for the 'operating' deficits the Council has prudently included £1m of capital expenditure within the 2008/09 capital programme in order to repay one of the external loans it currently guarantees should this be needed.
- 64 The two reports identified above reflect the current levels of financial support that may be required from the Council to BSI up to September 2008 and beyond. We acknowledge that the Council is actively working with BSI to generate a stabilisation plan for the PRSA. This needs to form part of a broader review by the Council of the role it aims to play in the health and leisure areas and the resources it is already committing to the arena.

Recommendation

- R1 We recognise that improvements to the MTFP have recently been made, but in deciding the extent to which it wishes to support the facility beyond September 2008 the Council should consider fully the financial implications to the Council of future liabilities, including:*
- the full cost of the support, including loan interest funded on behalf of PRSA and other revenue support; and*
 - the sensitivity of the above estimates and any potential impact this could have on the Council's financial position.*

Recommendations

R2 The Council should routinely monitor BSI performance against budget in order to identify early any variance from the estimated level of financial support required by the Council and the impact of this on the MTFP.

Usage

The Council needs to establish clear outcomes, including the degree and type of usage, it would like in return for its contribution to the facility. These need to be established within a clear wider strategy for the community provision of leisure and sports facilities and opportunities for the area. Performance against the strategy needs to be monitored to assess success and value for money.

- 65 Consideration of usage of the facility by the Council has so far concentrated on the likely impact this has on the operating deficit of the facility. This is understandable since usage so far has not been sufficient to generate the operational surplus originally projected and has directly impacted on the Council's finances.
- 66 Business plans have been generated for the 'operating' activities of the project since the feasibility stages and as the project has evolved these have been refined and reported to the Council at various stages. Key to the generation of all the business plans have been the projections for income and expenditure in respect of the facilities, which too have varied during the evolution of the project.
- 67 Initial projected business plans were generated by the feasibility consultants originally employed by the Council but effectively these were superseded by business plans prepared by the successful tenderer for the leisure facilities operator contract developed by BSI. We have identified above how based on these business plans the Council was initially requested to provide financial assistance in June 2003 and how this has escalated since.
- 68 We cannot see that the wider outcomes for the community, or the nature and type of use made of the facility, have been clearly defined and monitored by the Council. It is difficult to see therefore how the Council has assessed the overall success of its contribution to the PRSA.
- 69 In July 1999 the Housing and Community Services Committee received a report on the Stadium Development Proposals. It identified that there was a 'realistic prospect of not only developing high quality athletics and rugby facilities but with the additional benefit of providing purpose built facilities for athletes with disabilities that will attract and benefit such athletes from the whole country'.

- 70 In May 2000 the Boston Sports Initiative became a registered charity with the Council represented on its Board. The objectives at the time and still remain are as follows.
- To provide facilities and opportunities for physical recreation or other similar leisure time occupation for the benefit of people who have a physical, sensory, mental or multiple disability and in particular to provide facilities and opportunities for both non-competitive and competitive sport to assist the integration of such people into society and to improve their conditions of life.
 - Generally to relieve suffering and promote the health of people who have physical, sensory, mental or multiple disability.
 - To make such facilities and opportunities available for the benefit of the general public in the interests of social welfare.
 - To promote amongst all people a practical understanding of the principals of health and fitness.
 - To promote any other purpose for the benefit of the community as shall be exclusively charitable.
- 71 On the 12th January 2005 the Director of Development at the time presented a report to Cabinet which identified the project's progress. This contained an additional report from BSI which gave some details of the "operational" activities since the arena opened. These details reflected on progress with membership growth, member usage and the range of classes being provided by the facility. These were not specifically related back to the wider objectives or vision expressed in 1999 or in BSI's objectives.
- 72 Reports since January 2005 to Council members have similarly focused on the requirement from BSI for further revenue funding and have referred little to the achievement of strategic objectives the Council has for the arena. We have sought clarity from senior officers on what further usage information has been provided to Council Members but none has been identified.
- 73 It is possible that BSI have assessed progress against wider objectives for their own purposes, but we have found little evidence that the Council has formally identified the wider outcomes it wanted to see in return for its investment or set in place a mechanism to allow it to assess progress against them.
- 74 Officers of the Council acknowledge the need to reassess the approach to leisure provision in the area and we understand that BSI has developed a stabilisation plan which also suggests exploring the possibility of developing a new strategy for the provision of community sports in the Boston area. This coincides with a time of high profile interest in the broader health and well being of Boston residents as highlighted for instance in:
- the Sports England Active People Survey - (lowest percentage of people taking part in sport and active recreation); and
 - the local authority health profiles of the Department of Health - (high levels of obesity and low levels of life expectancy).

- 75 The Audit Commission has also recommended in its national report 'Public Sports and Recreation Services' that Councils should improve strategic planning of sports and recreation provision and increase overall efficiency by:
- assessing current and future sports and recreation needs locally and their relationship to regional and national needs;
 - collaborating with the private, voluntary, health and education sectors and working across administrative boundaries in the planning, procurement and delivery of services;
 - appraising the options for delivering sports and recreation services systematically in an open and transparent way and testing the market to ensure that the best value option is identified; and
 - improving the collection, analysis and use of performance information in order to demonstrate value for money, for example by including financial performance and social outcomes in contracts.
- 76 Such a strategy, formed in accordance with the above principles, would form a stronger basis for the Council to determine its future financial support for wider community sports provision including support for the PRSA.

Recommendations

R3 The Council should develop a clear strategy for the provision of sports and leisure facilities for the local community, taking account of the related health and well being agenda, and re-assess its current approach in the light of this.

R4 In assessing current and future levels of financial support Members should receive regular reports which assess usage against agreed and clear targets for:

- *broader outcome objectives the Council wants to achieve in return for its investment and support to the facility, for example usage of the facility by hard to reach groups, achievement of the sports strategy, and*
- *the impact usage is having on the level of financial support required by BSI.*

R5 The council should ensure that actual and estimated usage levels are robustly generated by BSI and its advisors before agreeing any future financial support.

Council's role in design and construction

We have briefly reviewed the Council's role in arranging the construction of the facility. The construction contracts were arranged by Project Management Consultants, but the appointment of the Project Management Consultants, and other non construction advisors eg Feasibility and Fund Raising Consultants, Initial Design Architects, Estate Management Firm and Main Architects were initially arranged by the Council. In June 2003 all such contracts were transferred from the Council to BSI.

A number of the non construction contracts, some for significant amounts, were let without any form of competitive tender. In addition, some of the contracts were let using delegated powers. Whilst many of the contracts let were subsequently transferred to BSI there is no reason to suggest this was not done for proper reasons, there is scope to improve the way such matters are reported in future.

Feasibility

- 77 On the 28 July 1999 the Chief Executive at the time reported to Housing and Community Services Committee members that, following a recommendation from a charity, the Council was working with, feasibility consultants had been appointed to undertake work on the project as well as raise funds from other sources for the project. The charity had past experience of the consultant's work. This was done in accordance with delegated powers granted to the then Chief Executive. The delegated powers were also used for the appointment of initial design architects and an estate management firm.
- 78 In view of this recommendation and in line with Standing Order 20 no competitive procurement was undertaken as it was considered that the personal skill of the persons were of primary importance. No indication of the potential cost for each of the individual appointments was given in the report but members agreed a budget of £150,000 for the total works.

Project Design - Stage 1

- 79 Building on this feasibility work members agreed the progression of the project to Stage 1. Stage 1 of the project was to develop business plans and progress to initial planning requirements, which was funded by the Council from an agreed budget and from within the £3 million capital grant committed towards the project. In order to develop this work the Chief Executive at the time recommended the extended appointment of feasibility and fund raising consultants, estate management firm and initial design architects.
- 80 Members agreed the recommendation to extend the appointments and these were made by the Chief Executive at the time in accordance with the Council's Standing Order 20 to provide professional advice for Stage 1 of the project. No further competitive procurement was undertaken and a breakdown of the budget was provided to members that identified the budgeted value of the individual appointments.

Project Design – Stage 2

- 81 On the 23 March 2000 the Housing and Community Services Committee received a report detailing progress with Stage 1 and which recommended progress to Stage 2 and beyond, to which the committee agreed. Stage 2 would progress the project to the submission of planning applications and the purchase of land. This stage of the project would also draw on funding received from a charity in addition to the Council.
- 82 The Chief Executive at the time identified the continuing roles of the feasibility and fund raising consultants, estate management firm and initial design architects during Stage 2 of the work as an extension of the current arrangements. The committee continued to be informed of the value of the individual appointments through the budget report.
- 83 At the November 2000 BSI Board meeting the estate management firm reported that the costs of the design for the arena could now exceed £10m and the BSI Board agreed that this needed to be reviewed. The Chief Executive at the time in consultation with the Chairman of the BSI Board discussed the situation with a charity who were also funding part of the construction and who recommended the use of a project management consultancy who had experience in such work and who the charity had worked with previously.
- 84 As a result the project management consultancy entered into a contract with the Council but this was not formally reported to Council members until 16 July 2002 when it was included in a History of the Project by the Director of Community and Development Services at the time.
- 85 The report covering the history of the project also noted that:
- the project management consultancy reported to the BSI Board that they considered it would not be possible to produce the design within the funding available and advised that with some redesign the scheme could be reduced to £6.74m or even further to £5.5m. In light of this advice the BSI Board asked the project management consultancy to undertake further work to review the proposals;
 - the project management consultancy presented a report to the BSI Board on 21 March 2001. The report proposed alternatives to the original design and introduced the methodology of using directly appointed specialist contractors rather than a main contractor and flexibility in the planning design. The report proposed the continuing appointment of the project management consultancy themselves acting as the overall project managers and the appointment of a separate company as the main architects for the project;
 - the proposals were agreed by the BSI Board and work commenced; and
 - the scope of work by the project management consultancy and the main architect were extended further in June 2001.

- 86 Whilst the contracts for the above two appointments were both transferred to BSI by June 2003 (backdated to December 2002) the consultants were all initially appointed on contracts with the Council. We understand that all liabilities under the contracts were also transferred at the same time.
- 87 We can find no record of a report to Council members informing them of the appointments or of the Council agreeing to the appointments. Payments to the consultants up until transfer of contracts continued to be made from the initial £3 million the Council had set aside as a contribution to the project. From the transfer BSI made the relevant payments directly.
- 88 In total, payments under these two appointments totalled over £0.9 million but it is unclear how much of this was paid directly by the Council before the contracts were transferred.

Construction - Phase 1

- 89 On the 13 February 2002 the Chief Executive at the time reported to Cabinet members the then current position with the project which included revisions to the sources of funding and a final and phased proposal for the actual construction of the arena. External funding for the project had not yet reached anticipated levels to complete the full scheme so a two phased approach was considered.
- 90 Funding would be available for the Phase 1 (revised) after taking a £500,000 loan from a charity. It was considered that further external funding would materialise once the construction was committed. Members gave their approval to progressing with Phase 1 of the construction which at this stage did not commit the council to any additional financial commitments.
- 91 On the 16 July 2002 the Director of Community and Development Services at the time reported on project progress to Resources and Organisation Board members. The external funding for the project was still £1.1 million short against the Final Scheme estimates of £6.851 million (£4.077 million in construction costs) and £390,000 short against the Phase 1 costs.
- 92 The Board referred comments to Cabinet for it to consider with the report on the 21 August 2002. The report to Cabinet was subsequently referred to Full Council by 'call in' on the 19 September 2002 and agreed but subject to the Cabinet first receiving satisfactory assurances on ten areas of concern. These covered the financial viability of the project, clarification of responsibility for the project, facilities to be provided for disabled athletes and other issues. The Cabinet received responses from officers to the areas of concern on the 24 September and were satisfied that they adequately addressed the concerns. Full Council subsequently resolved that the Cabinet decision on the 21 August 2002 was held.

- 93 The project management consultants and the main architects had been developing designs and seeking tenders from construction contractors. The project management consultancy made recommendations on preferred building contractors following competitive tendering to the Council. Initially some building contracts were made between the Council and contractors but were transferred from the name of the Council to BSI in June 2003 in the same way as the contracts for the external advisors. The work by the initial design architect had come to an end and any further role for the feasibility and fund raising consultant was being reviewed.
- 94 We have briefly reviewed a selection of tender reports prepared by the project management consultancy for the construction contracts with BBC prior to transfer. The reports show that tenders were invited from contractors who were in a position to provide competitive tenders for the works.

Construction - Phase 2

- 95 Other than agreeing to provide additional financial assistance to BSI in June 2003, as noted earlier in paragraph 48, the Council had no direct contractual arrangement in connection with phase 2 construction. Direct responsibility for developing the project at this stage had been transferred to BSI.

Construction - completion

- 96 On the 12 January 2005 the Director of Development at the time reported to Cabinet members on project progress. Phase 1 of the construction had been completed in September 2003 and Phase 2 was completed in October 2004. The Phase 1 facilities were officially opened in October 2003.
- 97 The report identified further capital funding shortfalls and concerns about the way the project had been managed by the project management consultants. The report noted that BSI had taken legal advice and requested further financial support from the Council to allow BSI to pursue the claim, to which the Cabinet agreed.
- 98 At the meeting on the 12th January 2005 the Cabinet also received a report from BSI Board which identified the anticipated final costs of the project to be £9.188m which was £1.393 million higher than that reported to the Council in June 2003.
- 99 The Audit and Governance Committee received a report on 29th June 2006 which reported that the PRSA was now completed and the final cost of the project were £9.224m compared to £9.188m reported in January 2005
- 100 There is no further mention of the current state of the potential legal claim by BSI against the project management consultants regarding under performance and it appears this is still unresolved.

Recommendations
<i>R6 Ensure that where decisions to enter into contracts are delegated or where contracts are let without competitive tendering that the full details including the likely amount of the contract are reported to members.</i>
<i>R7 When reporting extensions to existing contracts the existing cost and likely future cost be clearly identified in reports.</i>
<i>R8 Decisions to let contracts in the Council's name are made and reported in accordance with the Council's standing orders even though it may be the intention to transfer the contracts at a later stage.</i>
<i>R9 The current position of the potential claim by BSI should be ascertained and reported to Members given that funds were advanced 2 years ago.</i>

Fund raising

Other than the £3 million committed by the Council, the project was dependent on the remaining funds being raised from other sources including grant income and other sponsorship from public, voluntary and private sector organisations. The Council initially employed a fund raising consultancy to help in this respect but in the event the funds raised fell short of expectations and coupled with rising construction costs have resulted in the need for loans from the Council and others to allow the arena to be finalised.

- 101 We have commented on the procurement of the fund raising consultancy above. The Council reviewed the progress made on fund raising in July 2002 and this resulted in the termination of the contract and the agreement of a compromise payment.

Action plan

- 102 The completed action plan is included in Appendix 1 to this report.

Appendix 1 – Action plan

No.	Recommendation	Priority	Response	Officer Responsible	Implement by when
16	<p>R1 In deciding the extent to which it wishes to support the facility in the future the Council should consider fully the financial implications to the Council of future liabilities, including:</p> <ul style="list-style-type: none"> the full cost of the support, including loan interest funded on behalf of PRSA and other revenue support; and the sensitivity of the above estimates and any potential impact this could have on the Council's financial position 	High	<p>Agreed.</p> <p>Cumulative revenue deficit funding liability incorporated into draft un-audited financial statements for year end 31/03/2007. 2007/08 and MTFP (2008/09 - 2011/12) include reasonable estimates based upon review of BSI draft 10 year business plan for future revenue deficit funding and interest expenditure. Contractual obligation ends 30 September 2008. Council's capital programme includes for repayment of Medlock Loan. BBC loan is accounted for as capital expenditure.</p> <p>Remaining Lloyds TSB balance kept under review.</p>	Director of Resources	Complete.
17	<p>R2 The Council should routinely monitor BSI performance against budget in order to identify early any variance from the estimates level of financial support required by the Council and the impact of this on the MTFP.</p>	High	<p>Agreed.</p> <p>BSI performance against business plan is included in monthly budget monitoring of the revenue account to Cabinet.</p>	Director of Resources	Complete.

26 Princess Royal Sports Arena | Appendix 1 – Action plan

No.	Recommendation	Priority	Response	Officer Responsible	Implement by when
19	R3 The Council should develop a clear strategy for the provision of sports and leisure facilities for the local community, taking account of the related health and well being agenda, and re-assess its current approach in the light of this.	High	Agreed. BBC to commission Community Sports Strategy and feasibility study.	Director of Development	Strategy to be reported back to Cabinet in 2007/08.
19	R4 In assessing current and future levels of financial support Members should receive regular reports which assess usage against agreed and clear targets for: <ul style="list-style-type: none"> • broader outcome objectives the Council wants to achieve in return for its investment and support to the facility, for example usage of the facility by hard to reach groups, achievement of the sports strategy, and • the impact usage is having on the level of financial support required by BSI. 	High	Agreed. BSI to review Sports Development Plan (stabilisation plan recommendation) guided by feasibility study and provide regular formal progress/update reports to Cabinet.	Director of Development and the Managing Director of BSI	2007/08
19	R5 The council should ensure that actual and estimated usage levels are robustly generated by BSI and its advisors before agreeing any future financial support.	High	Agreed. BSI to review Sports Development Plan (stabilisation plan recommendation) guided by feasibility study and provide regular formal progress/update reports to Cabinet.	Director of Development and the Managing Director of BSI	2007/08

No.	Recommendation	Priority	Response	Officer Responsible	Implement by when
24	R6 Ensure that where decisions to enter into contracts are delegated or where contracts are let without competitive tendering that the full details including the likely amount of the contract are reported to members.	Medium	Agreed. Formal amendment to Council constitution (standing orders) to be implemented.	Monitoring Officer	2007/08
24	R7 When reporting extensions to existing contracts the existing cost and likely future cost be clearly identified in reports.	Medium	Agreed. Formal amendment to Council constitution (standing orders) to be implemented.	Monitoring Officer	200/08
24	R8 Decisions to let contracts in the Council's name are made and reported in accordance with the Council's standing orders even though it may be the intention to transfer the contracts at a later stage.	Medium	Agreed. Formal amendment to Council constitution (standing orders) to be implemented.	Monitoring Officer	2007/08
24	R9 The current position of the potential claim by BSI should be ascertained and reported to Members given that funds were advanced 2 years ago.	High	Agreed Position reported to Cabinet Members 11 July 2007.	Director of Development	11 July 2007