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REPORT OF STRATEGIC DIRECTOR FOR PLACE

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TO THE CITY MAYOR'S PROPERTY AND REGENERATION BRIEFING

ON

8<sup>th</sup> AUGUST 2022

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TITLE: Pendleton Community Activity and Health Hub (Leisure Centre)

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RECOMMENDATIONS:

That the Deputy City Mayor is recommended to:

Note the proposals detailed below on the terms as set out in the body of this report and on the detailed terms set out in an accompanying Part 2 report for approval elsewhere on the agenda.

1. Continuing development and reporting strategy of the Pendleton Community Activity and Health Hub project (Leisure Centre).
  2. The in-principle ring fencing / allocation of the anticipated overage payment from the Pendleton Phase 3 works and envisaged future receipts from the next phases of the Pendleton redevelopment towards the Leisure Centre as required.
  3. The acceptance of the Sport England grant formalised via the signing of the Lottery Funding Agreement and Deed of Dedication documents.
  4. The placing of a restriction on Salford City Council's freehold legal titles at the site of the new Pendleton Community Activity and Health Hub as security for a Grant from Sport England for a maximum term of 25 years from the date of the signing of acceptance of the Grant.
  5. The Revenue and Financial challenges associated with the new Pendleton Community and Health Hub Project( Leisure Centre)
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## EXECUTIVE SUMMARY:

The purpose of this report is to set out a strategy for the Pendleton Community Activity and Health Hub (Leisure Centre), that enables the project to proceed given the current context of the capital and revenue challenges that exist.

The strategy is two pronged.

- Additional funding streams, namely projected SCC income from the redevelopment of Pendleton.
- Capital cost reduction via a comprehensive design review, working closely with the contractor and Sport England.

All, if successful would benefit the revenue position, although it is not possible to quantify fully whilst the design review is being undertaken.

The next phase of the housing development for Pendleton is inherently linked to the Leisure Centre project. Absence of a decision will result in delays to the housing project and the associated delays in terms of land receipt, new homes bonus and Council tax income.

The second section of the report deals with the acceptance of the Sport England grant award.

Salford City Council made a successful application to Sport England in March 2021, resulting in a grant award of £2 million, the maximum grant award for the Strategic Facility Programme. To accept the grant the City Council is required to sign a Deed of Dedication and place restrictions on the applicable legal titles for the site of the Pendleton Community Activity and Health Hub. The obligations on the City Council and its leisure operator have been reviewed by legal services, subsequently discussed with all parties, and are deemed to be acceptable. The obligations and the legal title restriction provides security for the Grant for the duration of the Clawback period, 25 years.

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BACKGROUND DOCUMENTS: Plan showing the extent of the restriction on the registered title – “PEN LEISURE REG TITLES V3”

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KEY DECISION: Yes

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### **1.0 Background**

1.1 The Pendleton Community Activity and Health Hub has been developed closely with Sport England since it was first identified as a priority project in Salford’s 2016 Indoor Sport Strategy. Utilising Sport England’s Strategic Planning Guidance model, the City Council submitted a funding bid which has resulted in the maximum grant award of £2 million.

- 1.2 The Sport England grant offer and legal documents refer to the project as the Pendleton Community Activity and Health Hub. This is a working title and refers to the project more commonly known as Pendleton Leisure Centre.
- 1.3 Capital costs have now increased significantly and along with likewise high increases to revenue costs. Officers have been looking at how the capital gap can be reduced, and the revenue position improved in what are challenging circumstances. Progress to date is outlined below and in more detail within the accompanying Part 2 report.
- 1.4 Wider development context - the next phase of the housing development for Pendleton is inherently linked to the Leisure Centre project. Originally in 2012 the developer was to upgrade Clarendon Leisure Centre and to construct a full size 3G artificial pitch. The pitch is a planning requirement associated with the wider development of Pendleton. If the new Leisure Centre does not proceed, there will be a considerable impact to the housing scheme arising from a redesign and the need to provide managed changing rooms facilities associated with the pitch wherever it is located. NB The costs for the pitch are incorporated within the project costs for the Leisure Centre.

## **2.0 Detail**

### ***Updated funding position***

- 2.1 Two further funding streams since February 2021 have been identified; Brownfield Housing Fund bid and predicted income from the wider redevelopment of Pendleton.

#### **2.1.1 Brownfield Housing Fund (BHF)**

Demolition of Clarendon Leisure Centre will enable the site including the now derelict all-weather pitch to be developed for housing. A Brownfield Housing Fund application has been made and whilst unsuccessful in this tranche is retained on the reserve list in anticipation of future tranches being available.

#### **2.1.2 Anticipated Land Value – Pendleton Redevelopment**

In 2013 the council entered a long-term partnership to regenerate Pendleton including a Development Agreement (DA) with SP+ (Developments) to deliver c£250m development of new homes, parks, and public realm. The next phase of development is being progressed and this encompasses the sites of both the existing leisure centre, Clarendon, and the location of the new site.

An Initial Development Appraisal has been produced for the new layout with 575 homes across the two phases. This is based on all known income and costs at the time of the financial assessment. This includes knowledge of conditions experienced at Phase 3 and wider market understanding by the Together Housing and Lovells partnership

The Initial Development Appraisal will be detailed in the accompanying Part 2 report

Approval is sought for use of potential future receipts, from the Pendleton

Development scheme, to be used to fund the Leisure Centre. The figure is to be determined when the scheme is presented to Procurement Board to approve the works costs post RIBA Workstage 4 development work in 2023.

### 2.1.3 Capital review

Irrespective of the potential additional funding set out above a rethink of the design is being undertaken with the contractor. The aim of this rethink is to reduce the capital costs and thereby improve the business case whilst not detrimentally impacting on the aims and objectives the Centre has set out to achieve, namely improved health and life choices for the community of Pendleton.

The funding identified above along with a high-level appraisal of the capital costs projecting inflation would though result in a predicted annual revenue deficit position based on markets as they currently stand.

## 2.2 **Sport England grant award**

2.2.1 The acceptance of the grant involves a formal legal agreement between Sport England and Salford City Council to be executed. The document has been reviewed by the Manchester Legal Team and the terms are felt to be reasonable, enabling the City Council to accept the grant. The agreement lasts for 25 years and the main requirements for the City Council to comply with are:

- Before the Grant can be drawn down, planning permission is to be obtained, proof of ownership of the site is demonstrated (again), a restriction applied to the legal titles and the City Council has entered into an agreement with the Contractor.
- SCC is required to provide evidence that the funding does not breach State Aid rules (now referred to as subsidy control).
- SCC shall not (and shall ensure that no third party shall) without the prior written approval of Sport England during the Grant Term create, or permit to be created, a mortgage or charge over the facility/site.
- There is a restriction on the sale of any items or interests funded wholly or in part by the grant without the prior consent of Sports England.
- Within 15 Business Days following the date of the Agreement, the City Council shall apply to the Land Registry for a restriction to be noted on SCC's registered titles to the Site.
- SCC is asked to give warranties to confirm that the information it has provided Sport England is correct. Some of the warranties relate to SCC's title over the land upon which the Pendleton Leisure Hub will be developed. The property legal team have reviewed the legal titles and the warranties to ensure that these can be given, and some disclosures against the warranties (such as in relation to mines and minerals) have been made in the agreement.
- Sport England consent is always required before amending the design or making alterations to the agreed designs.
- There are ongoing requirements in relation to the facility/site through the 25-year grant term – e.g., only to use to achieve the Strategic Purpose,

keep in good state of repair, to keep the facility/site insured.

- An operation plan is required pre-opening and then updated every three years. This lies with the operator of the facility.
- SCC is committing to the facility being fully operational until at least the end of the Grant Term. SCC must seek Sport England's consent if it wishes to have a third-party operator run the site.
- SCC is responsible for the design of the facility and any management and safety implications.
- The Key Performance Indicators as set out in the funding application are to be achieved.

2.2.3 Sport England require a restriction is placed on the registered title covering the whole area of the site, as security for the Grant. This means that for the duration of the Clawback Period Salford City Council cannot dispose of the Centre (or any part) or cease using the Centre (or any part).

2.2.4 SCC will register a restriction over such titles which fall within the boundary of where the leisure centre will sit, which we expect will include the following titles GM609385, GM609415, MAN343946 & MAN332021 but may change subject to any variation of the final design.

In addition to referencing the title numbers, the restriction will state:

"No disposition of part of the registered estate edged red by the proprietor of the registered estate or by the proprietor of any registered charge, not being a charge registered before the entry of this restriction is to be registered without a written consent signed by **The English Sports Council**, Company Registration RC000766, of 1st Floor, 21 Bloomsbury Street, London, WC1B 3HF ("**Sport England**").

2.2.5 As with any grant funding agreement, there is a risk to the City Council that, if this is breached (e.g., the grant is not used on eligible expenditure), then Sport England can withhold the grant and/or seek repayment of any grant already drawn down.

### 2.3 **Next steps**

The most significant upcoming milestone will be the reporting to Procurement Board of the works contract sum. It will be only at that point in time that the capital costs are fully identified, and business plan impact known. However, to get to that stage, working backwards, RIBA 4 detail design stage needs to be completed and prior to that planning permission submitted.

It is therefore proposed based on acceptance of the strategy outlined above to:

- report to Lead Member for Environment, Neighbourhoods and Community Safety with an update report following completion of the design review in September and again prior to the Planning Application submission which is anticipated to be April 2023.

- seek approval from Procurement Board in September for the pre-construction agreement with the contractor to development the scheme up to and including Work Stage 4 (Detail Design).
- seek approval from Procurement Board in late 2023/ early 2024 to approve the works value.

Approval is sought now to continue with the development of the project through to completion on the above basis.

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#### KEY COUNCIL POLICIES:

- Playing Pitch Strategy & Action Plan, adopted by the City Council in 2016 (updated 2018).
  - Indoor Sport & Leisure Facilities Assessment Report, July 15 (Knight, Kavanagh & Page)
  - Indoor Sport & Leisure Facility Strategy, November 15 (Knight, Kavanagh & Page)
  - Salford Unitary Development Plan 2006, Saved Policy R2 Provision of Recreation Land and Facilities.
  - Salford Publication Local Plan 2020, Policy R5 outdoor and indoor sports facilities.
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#### EQUALITY IMPACT ASSESSMENT AND IMPLICATIONS: N/A

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ASSESSMENT OF RISK: High

#### Sport England grant

Although there are many terms to comply with, they are not onerous. There is however a risk associated with the use of the grant funding whilst in development, should at the point of agreeing the contract sum the project does not go ahead.

Changes arising from the design review & business case will need to be signed off by Sport England; the level of grant could be impacted.

#### Project costs & revenue impact

High level appraisal for both capital & revenue costs have been undertaken. Assumptions for inflation and risk allowance have been made but it will only be as the project progresses through each Work Stage that actual costs are known.

#### Anticipated Land Value – Pendleton Redevelopment

Anticipated Land Values are projected at this stage and the Development Partnership continues to manage cost and sales risk. Whilst it is anticipated that the cost-of-living crisis, increasing energy prices and other external factors will impact the property market the assessment of projected land values and overage is based on recent sales values achieved at the Phase 3 development. Further monitoring and market intelligence will continue to be carried out and fed into the final development appraisal.

The drawdown of the council land will be subject to a separate decision based on a completion of a detailed Final Development Appraisal.

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LEGAL IMPLICATIONS Supplied by: Lauren Armstrong, Solicitor Commercial (Legal) Team & Jon Paramor Deputy Head of Property.

Date: 30<sup>th</sup> November 2021, reviewed 4<sup>th</sup> July 2022 & 7<sup>th</sup> July 2022.

The Shared Legal Services team has been provided with a copy of the draft Grant Funding Agreement. As set out in this report, the terms proposed by Sport England terms appear to be acceptable for the City Council from a legal perspective. The grant funding agreement sets out Sport England's maximum financial commitment to the City Council. Sports England is not liable to the City Council to increase the amount of grant contribution is offers, notwithstanding the increasing delivery costs as set out in this report.

Like with any grant funding agreement, there is a risk to the City Council that, if the agreement is breached (such as the grant is not used on eligible expenditure, the key performance indicators and delivery timescales are not met, or the monitoring obligations are not complied with), then Sport England can withhold the grant and/or seek repayment of any grant already drawn down. Therefore, careful note should be taken of SCC's obligations (and the timings for delivery of these). A clear audit trail of any expenditure, decision making, and correspondence/notices to Sport England should be kept.

Sport England have set out some requirements in relation to the Sites on which the facility will be developed, to protect its grant funding. The City Council is required to:

- give warranties as to the quality of legal title which it holds over the land (and each time it draws down the grant it is confirming that these warranties are still true and accurate)
- register a restriction over the relevant legal titles in the form set out earlier in this report (which means that the City Council cannot dispose of its interest in the land subject to those legal titles without the consent of Sport England or its successor),
- not create, or permit to be created, a mortgage or charge over the facility, the Site, or any asset acquired or financed wholly or in part using the grant, without the consent of Sport England,
- keep the facility in a good state of repair, properly insured, and report any damage to the facility to Sport England within 5 business days, and
- provide a certificate of title

The restriction on title and certificate of title will be dealt with by the property legal team ahead of the first drawdown of the grant. If any significant change is proposed or occurs in relation to the land in and around the leisure centre, then advice should be sought from Legal Services, in case this requires any formal action in connection with the Sport England grant.

Legal has reviewed the subsidy control position and has provided a document setting out how the principles would be applied in this scenario. This document should be kept on file and updated where necessary to demonstrate that the principles have been considered if the award of the grant from Sports England to SCC was challenged.

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FINANCIAL IMPLICATIONS Supplied by:

David R Mills - Interim Strategic Finance Manager – [david.mills@salford.gov.uk](mailto:david.mills@salford.gov.uk)

Securing the grant from Sport England is an intrinsic part of the financial viability and business plan for the centre. Loss of the grant would cause considerable impact and create additional pressure on the council to manage the deficit created in operating funds.

The use of projected surpluses from Pendleton development should be taken in context of the following:

1. Such surplus is a projected value and subject to market pressures and cost pressures, and as such are not guaranteed.
2. The total regeneration needs of Pendleton need to be considered.

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PROCUREMENT IMPLICATIONS Supplied by: N/A

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HR IMPLICATIONS Supplied by: N/A

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OTHER DIRECTORATES CONSULTED: Salford Community Leisure

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WARDS TO WHICH REPORT RELATES: Pendleton and Charlestown