

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

COUNCIL - TUESDAY, 21 NOVEMBER 2017

Report Title	LEISURE SERVICES PROJECT
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Purpose of report	To note the decisions made by Cabinet and to obtain approval to implement the required work to outsource the running of the Council's current leisure centres and proceed with the construction of a new facility on a new site to replace Hermitage Leisure Centre.
Council priorities	<p>Value for Money</p> <p>Business and Jobs</p> <p>Homes and Communities</p> <p>Green Footprints Challenge</p>
Implications:	
Financial/Staff	The financial details and implications for staff engaged on leisure contracts at Hood Park and Hermitage Leisure Centres are contained within the report and appendices.
Link to relevant CAT	None.
Risk Management	The risks are being managed by officers on the project team.
Equalities Impact Screening	The new leisure centre and the enhanced services will seek to attract more and diverse users and an enhanced offer of affordable, high quality, cost effective events, programmes and activities accessible to all residents including people with disabilities and those who suffer social or economic disadvantage. They will also seek to deliver increased levels of physical activity, reducing the levels of health inequality and improving the health and wellbeing of residents across the district.
Human Rights	None discernible.

Transformational Government	Not applicable.
Comments of Head of Paid Service	The report is satisfactory.
Comments of Deputy Section 151 Officer	The report is satisfactory.
Comments of Monitoring Officer	The report is satisfactory.
Consultees	
Background papers	<p>Cabinet Report – Leisure Project Update dated 25 July 2017 https://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=126&MId=1552&Ver=4</p> <p>The Sports Consultancy Report – 2016</p> <p>Cabinet Report (confidential) and minutes – Leisure Project Update dated 1 November 2017 https://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=126&MId=1854&Ver=4</p>
Recommendations	<p>THAT COUNCIL:</p> <ol style="list-style-type: none"> 1. APPROVES THE FINANCIAL AND AFFORDABILITY MODEL IN RESPECT OF THE PROJECT, INCLUDING THE REQUIREMENT TO BORROW EXTERNALLY AND CONSEQUENTIAL CHANGES TO THE BUDGET AND POLICY FRAMEWORK. 2. NOTES THE OUTCOME OF THE GROUND INVESTIGATIONS OF THE A511 SITE AND ENDORSES CABINET'S RECOMMENDATION THAT THE SITE BE APPROVED AS THE LOCATION FOR THE NEW LEISURE CENTRE.

1.0 GOVERNANCE

- 1.1 The scope and scale of this project means that its approval requires the highest level of oversight to maintain the good governance of the council. This project will affect the Council's budget and how it carries out some of its functions for years to come. As such, it also triggers the Head of Paid Service's duty under Section 4 of the Local Government and Housing Act 1989 to report to all members of the Council on changes to the exercise of Council functions.
- 1.2 This project has involved the exercise of executive functions held by Cabinet and also Council functions held by full Council. The decision making power of the Council is split as follows:

Cabinet has the power to:

- Award contracts in excess of £100,000
- Dispose of land (in the form of leases to the winning bidder and disposal of the existing Hermitage Leisure Centre site)
- Allocate budget to support the project
- Consider details about how the project is being developed and make recommendations to Council.

Full Council has the authority to:

- Approve changes to the Council's Budget and Policy Framework
- Receive the Head of Paid Service's report under Section 4 of the Local Government and Housing Act 1989

Decision making

1.3 At the meeting of Cabinet on 1 November the following decisions were made:

- "The authority to carry out a lawful procurement and award a contract to implement the project within affordability and agreed output parameters as set out in the report, be delegated to the Strategic Director of Place in consultation with the Community Services Portfolio Holder.
- The further financial commitment from General Fund Reserves as detailed within the report be approved to fund the legal and technical support required for the procurement process through to completion.
- Financial Construct B be approved as the Council's stance for negotiations with bidders through the competitive dialogue process and that it be noted that further analysis work would continue to ensure that the Council achieved the most economical advantageous financial construct through the process.
- The significant change to the staff establishment under Section 4 of the Local Government and Housing Act 1989 due to the transfer of staff from the Council to a leisure contractor be noted. The changes would be detailed by the Head of Paid Service in the report to Council at its meeting on 21 November 2017.
- Elected Members be engaged, briefed and updated on the progress and key milestone stages throughout the procurement process through the appropriate reporting forum, the Strategic Director of Place, the Chief Executive and Community Services Portfolio Holder".

1.4 Therefore Council is being asked to:

- Approve the financial and affordability model in respect of the project, including the requirement to borrow externally and consequential changes to the budget and policy framework.
- Note the outcome of the ground investigations of the A511 site and endorse Cabinet's recommendation that the site be approved as the location for the new Leisure Centre.

1.5 As members will be aware, a project of this kind requires Cabinet and Council to consider detailed financial and business information, some of which is commercially sensitive. Whilst wishing to maintain transparency in the decision making process, officers have

been mindful of protecting the Council's commercial interests and have taken care to maintain the necessary confidentiality so as not to prejudice the procurement process. A summary of the financial information is provided in the body of the report with further details in confidential Appendix A.

- 1.6 A copy of the confidential Cabinet report from its meeting on 1 November 2017 is attached at confidential Appendix B together with the public minutes (attached at Appendix C). The information presented to Cabinet in respect of matters within its purview was necessarily detailed. In the interests of transparency a summary of the matters which Cabinet considered is included in the body of this report.
- 1.7 It is understood that members will wish to have a full debate on this item as it represents a significant decision. To enable members to be clear about which matters it is recommended to be discussed in the public meeting and which parts should be discussed in confidential session, a list of the appendices are set out below.

Appendix A – Summary of financial information (confidential)

Appendix B – Report to Cabinet, 1 November 2017 (confidential)

Appendix C – Minutes of Cabinet, 1 November 2017 (public)

Appendix D – Site plan (public)

- 1.8 Members will note that the appendices have been grouped into public and confidential documents. If members wish to debate the information in a confidential appendix, it is recommended that the press and public are excluded from the meeting due to the likely disclosure of commercially sensitive information. Advice can be provided to members on this point before the meeting should it be required.

2.0 BACKGROUND

- 2.1 In 2015 a report was presented to Cabinet in which it was reported that the Hermitage Leisure Centre was reaching the end of its useful and viable life. The centre is 40 years old and has been incrementally extended several times during that period of time. As a result the centre has become disjointed, inefficient and inflexible and increasingly unable to meet the current and future demands of 21st century leisure facility users.
- 2.2 In response, in 2016, the Council commissioned The Sports Consultancy (TSC) to undertake an assessment of the Leisure and Cultural options for the Council. The conclusion of the TSC report was that further capital investment in the existing Hermitage Leisure Centre would not represent value for money and was not advisable. Their recommendation was to outsource the leisure centres at Hermitage and Hood Park and build a new leisure facility in Coalville.
- 2.3 In July 2016 Cabinet set aside £150,000 towards the project to be spent on exploring the feasibility of outsourcing the services and building a new facility, including a period of consultation on the proposals for a new leisure centre.
- 2.4 In July 2017 Officers presented an update report to Cabinet and were further charged with carrying out to establish:
 - The affordability model and most likely financial position as a result of the outsourcing.
 - The suitability and viability of the A511 site located north of Stephenson Way and east of Thornborough Road in terms of ground conditions and pre-existing conditions as the proposed site for the new facility.

- An appraisal of the options and opportunities as part of the required disposal of the site currently occupied by the Hermitage Leisure Centre

Note - the outcome of the options appraisal is not covered in this report but will be the subject of a future report to Cabinet following a proper consultation process.

- 2.5 In 2016 the cost of building a new leisure facility in Coalville was estimated to be in the region of £18 million with the Council able to borrow from itself to pay for the capital spend and in revenue terms not spend any more money than is currently spent on leisure services.
- 2.6 The latest estimation for the cost of the new facility including the facility mix agreed at Cabinet on 25 July, is £19.475m. This current estimation takes into account both inflation since 2016 and future predicted inflation based on the estimated build start and completion dates for which operators are likely to price for within their bids.
- 2.7 It is important to note that final costs of the new facility will depend on the final agreed facility mix and the specification of the building put forward by bidders.
- 2.8 However, Members should also note that facility costs cannot and will not exceed the Council's affordability envelope as contained within this report, but the facility mix within that envelope could be further enhanced dependent on market conditions at the time of procurement.

Project Outcomes

- 2.9 The new leisure centre and the enhanced services it will provide will play a critical role in achieving the Council's vision, contributing to delivery of the Council's five priorities as set out in its Corporate Delivery Plan as well as being a major contributor to the Council's emerging Health and Wellbeing Strategy.
- 2.10 The new leisure centre and the enhanced services it will provide to residents will:
- **Help build confidence in Coalville** – by providing an affordable, accessible, high quality 21st Century facility that will be an iconic gateway to both Coalville and Whitwick, attracting more and diverse users into the district and boosting the local economy.
 - **Provide Value for Money (VfM)** – by delivering an enhanced offer of affordable, high quality, cost effective events, programmes and activities accessible to all residents including people with disabilities and those who suffer social or economic disadvantage.
 - **Support homes and communities** – by delivering an enhanced offer of events, programmes and activities focussed on increasing the levels of physical activity, reducing the levels of health inequality and improving the health and wellbeing of residents across the district.
 - **Support Business and jobs** – by looking to ensure that local businesses are included in the supply chain, the local labour force is engaged in the construction phase and beyond, that apprenticeship schemes (and where appropriate permanent employment) continues to be a key focus of the new contract for service delivery.
 - **Support Green footprints** – by designing and building a leisure facility that will be focussed on the principles of financial, operational and environmental sustainability

- 2.11 The services will focus on achieving specific health and wellbeing outcomes for the residents of North West Leicestershire.
- 2.12 The latest figures from Public Health England (2015/16) show that the levels of physical inactivity (not active in the last 28 days) amongst adults aged 19+ in the district is 32%, obesity levels amongst children in year 6 is 17% and adults classified as being overweight stands at 67%.
- 2.13 Improving these and a range of other key outcomes through carefully set performance indicators and regular monitoring, will be a key target for the service provided from the new leisure centre.
- 2.14 Members are also reminded that the Hood Park Leisure Centre in Ashby is also included in the proposed outsourcing exercise. As such the new operator will also be responsible for the operational management and business development of the building, staff, programmes and activities at the Hood Park Leisure Centre under council direction and monitoring.
- 2.15 Officers will ensure that as part of the dialogue stage of the procurement process, potential operators will be asked to provide the council with their proposals for capital investment in Hood Park Leisure Centre during the 25 year life of the proposed new contract.
- 2.16 This investment will ensure that Hood Park Leisure Centre can continue to meet the current and future demands of its customers and that the facility will play a full and equal role in contributing to the delivery of the councils five corporate priorities and the emerging Health and Wellbeing Strategy.
- 2.17 The operator will need to satisfy the council that there will be an ongoing programme of capital and revenue investment at Hood Park the objective of which will be the continual development and improvement of the centre and its leisure offer to users.
- 2.18 The Leisure offer at Hood Park is very different from that at the current Hermitage site. The Lido at the Hood Park leisure Centre is a unique and iconic leisure facility in the district and is one of only a handful of such pools still operating in the country.
- 2.19 It provides a leisure experience to the residents and visitors to the district that very few local authorities are able to provide. Its preservation and future will be a key consideration for any incoming operator.
- 2.20 Here too operators will be asked to provide suggestions and proposals as to how they might be able enhance the facility to ensure its future and continued use.
- 2.21 In addition the council has also secured a number of S106 contributions which are allocated for development work at the leisure centre. A condition of these s106 agreement is that the funds must be committed and used by September 2019.
- 2.22 This timescales do not allow for a preferred operator to develop a potential scheme. Therefore officers will consider options to develop and improve the centre using these funds in advance of the contract being awarded to the new operator.
- 2.23 Care will need to be taken to ensure that any proposal for the interim development of Hood Park Leisure Centre prior to award of contract does not compromise the council's negotiating position with potential operators.

3.0 FINANCIAL IMPLICATIONS

- 3.1 Due to the commercially sensitive nature of the financial implications associated with the outsourcing business case, detailed financial information is included within a restricted appendix accompanying this report (Appendix A). Information contained within the main body of this report therefore seeks to provide a summary of the financial modelling undertaken and the affordability of the project over both the proposed DBOM contract period (25 years) and useful life of the new facility (40 years).
- 3.2 At its meeting on 25 July 2017, Cabinet was presented with an indicative affordability model intended to demonstrate the 'worst case' scenario under an outsourcing arrangement including a new build facility. The financial assessment technique used to assess this affordability position was 'net present value', a measurement of surplus or deficit calculated by subtracting the present values of cash outflows from the present values of cash inflows over a period of time. The estimated financial impact of the leisure project at this time was a break even position and a net present value of +£334k over 40 years, provided that a saving of £200k per annum was achieved by the Council in respect of internal corporate overheads, and that funding for the project could be sourced entirely from internal funds. Estimates therefore presented a financial position where the Council would spend no more on its leisure centres than it currently spends and could expect to gain £334k over 40 years by outsourcing the existing and new facility.
- 3.3 Since the July Cabinet meeting, Ernst & Young LLP (EY) have been engaged to assess the affordability position for the Council in respect of the outsourcing (to ascertain whether the Council can afford the project) and the likely financial position (for both the Council and the operator) achievable through a Design, Build, Operate and Maintain (DBOM) procurement exercise. Work previously undertaken with the Council's treasury advisors Arlingclose to estimate the likely level of internal funding available for the project has also been revisited.
- 3.4 The detailed financial modelling undertaken has considered the likely value and timing of funding and cash inflows and outflows in respect of business as usual compared to an outsourcing arrangement. A number of core assumptions are built into these projections including estimates originally developed by The Sports Consultancy in 2016 in respect of the cost of, and demand for, membership and throughput of the new facility.
- 3.5 As with any financial model, assumptions about future business conditions drive the anticipated financial performance of the business as usual and outsourcing cases.
- 3.6 In respect of the business as usual case, the assumptions are based on current operational costs of the service with varying inflationary increases applied to individual components of expenditure and income based on historical analyses of trends. Specifically, future life cycle costs in respect of maintaining the existing Hermitage and Hood Park sites is based on known future asset management costs. It is important to note that the business as usual cost assumptions of Hermitage do not include the anticipated cost of redeveloping the existing facility. Work undertaken in 2013/14 to understand the capital investment required to improve the financial viability of the centre, was fed into The Sports Consultancy report and estimated the level of investment at £1.4m.
- 3.7 The outsourcing case takes assumptions developed in respect of income (derived from membership and throughput forecasts), life cycle costs, NNDR and VAT as developed by The Sports Consultancy in 2016 and the current operational cost of

the service under business as usual, with varying rates of inflation then applied to reflect the likely future financial position.

- 3.8 The outsourcing case also assumes that the Council will save £200k per annum in internal corporate overheads. Members should note that these proposed savings are proposed to be met by seizing opportunities to reduce the central support service through natural wastage (e.g. not recruiting to vacancies, voluntary leavers or staff seeking to reduce the hours).
- 3.9 Following receipt of an actuarial evaluation of the Council's employer pension contributions for staff expected to transfer under TUPE to the preferred supplier, it has been confirmed that there will be no increase in employer contributions required. Additional pension contributions payable by the Council have therefore been set to nil in the financial model.
- 3.10 The financial model assumes a contract start date of 1 April 2019, with an 18 month construction period and operational start of the new facility on 1 October 2020. During this period, the operator will manage existing operations.
- 3.11 At its meeting on 1 November, Cabinet approved a preferred 'financial construct' in respect of risk and reward to be used as a stance for negotiations with contractors. Full details of the two scenarios considered can be found in Appendix A, however in summary the preferred financial construct is as follows:
- a) The Council receives an annual payment from the operator.
 - b) The operator retains 100% of profits up to 8% of income, with profits above this level shared with the Council on a 50:50 basis.
 - c) The operator suffers all losses.
- 3.12 In assessing the Council's forecast position in respect of internal funding available for the project, it has been identified that the project will utilise a mixture of internal funding and other capital receipts, with external borrowing to be used to fund the residual value of funding required for the construction of the new facility.
- 3.13 Using net present value (as explained in 2.2) to assess the affordability of the project based on the assumptions as outlined in paragraphs 2.3 to 2.11, the estimated financial position of the Council is that subject to minor fluctuations, the Council would breakeven as a result of the project over 25 years and be £3.086m better off over 40 years.
- 3.14 The financial modelling projections developed by EY and presented throughout this report will be used within the procurement process via calculated affordability key performance indicators (KPIs). These affordability KPIs will be shared with bidders and used to assess the affordability of bids received.
- 3.15 In July 2016 Cabinet approved the expenditure of £150,000 for exploring the feasibility of the project further. To date, £97,600 has been spent. Cabinet agreed to commit expenditure of up to a further £350,000 from unallocated reserves to fund sufficient external technical and legal resources to see the project through to completion, including costs associated with the disposal of land off Cropston Drive (estimated at £30.5k).

4.0 LEGAL IMPLICATIONS

Property – the proposed site of the new Leisure Centre

4.1 The proposed site is the land on the A511 owned by the Council located north of Stephenson Way and east of Thornborough Road. Legal Services have investigated the Council's title to the land to determine whether there are any legal issues that need to be overcome in constructing the Leisure Centre on the site and have advised Cabinet accordingly. The details of the property matters are contained within confidential Cabinet report at Appendix B. In summary:

- The site can be used for recreational purposes. This will be reflected in the contract to the new leisure supplier.
- There are some minor property issues to be resolved with HM Land Registry, the National Coal Board and Leicestershire County Council. Such issues are usual in a project such as this and Cabinet endorsed officers working to resolve them.
- Initial site investigations revealed no mineshaft entrances on the site.

The site plan is attached at Appendix D.

4.2 The Contract and Procurement

At its meeting on 25 July 2017, Cabinet decided that the project should be progressed by way of a Design, Build Operate and Maintain (DBOM) arrangement under which a single leisure contractor is procured (under a single contract) to manage existing facilities and build the new facility. The procurement of a leisure contractor will be carried out using the industry-standard Sport England toolkit. This includes a detailed template contract based on established public sector principles of risk allocation. The report to Cabinet for its meeting on 1 November 2017 contained a summary of the risk profile of the Sport England template contract. Council is asked to note Cabinet's decision to proceed with the project using the Sport England template contract which officers will tailor to the Council's project specific needs.

5.0 THE A511 PREFERRED SITE - SITE INVESTIGATIONS

5.1 In arriving at a decision to proceed with the A511 site, Cabinet had regard to the following information derived from detailed site investigations and surveys carried out by CBRE (specialist building consultancy group):

- The Local Plan
- Intrusive ground investigations
- Ecological assessments
- Traffic surveys, highways and vehicular access

5.2 Cabinet commissioned this work to be satisfied that the project could proceed and to give some confidence to the Council to enable this report to be considered and the next key decisions in the project to be made.

6.0 WORKFORCE IMPLICATIONS

- 6.1 The report to Cabinet on 25 July 2017 documented the workforce and staffing implications of the proposals, which essentially would lead to a “Transfer of Undertaking (Protection of Employment)” (TUPE) situation for the employees engaged on Leisure contracts at Hood Park and Hermitage Leisure Centres.
- 6.2 Arrangements under a TUPE transfer are governed by the law and the process places significant emphasis upon the engagement and consultations with employees and their trade union representatives. The Council’s recognised Trade Unions will accordingly be engaged in these processes as soon as the procurement processes permit. We will be seeking to establish the early engagement of the successful contractor in the transfer process to ensure there is a smooth transition.
- 6.3 The TUPE transfer of the staff will occur ahead of the completion date of the new centre. It is anticipated that the employee transfer process will commence in the spring of 2019.
- 6.4 A significant proportion of the current Leisure employees are engaged on casual or zero hours contracts. A review of all individual contracts of employment will be undertaken internally before the TUPE transfer process commences to ensure the contracts accurately reflect the work being undertaken by each employee.
- 6.5 The transfer of a significant proportion of the Council’s workforce to an external provider will result in a significant change to the Council’s establishment and how it carries out its functions. Accordingly, this report and its background papers (in particular paragraph 3 (Staff Implications) of the report to Cabinet on 25 July 2017 constitutes the Head of the Paid Service’s report to the Council in satisfaction of the requirements of Section 4 of the Local Government and Housing Act 1989.
- 6.6 Some current “Leisure” employees will remain in the employment of the Council, notably those engaged in the provision of Leisure activities in other Centres (such as Castle Donington Community College), the grounds maintenance service and employees engaged in Sports Development work in communities. The Council will also retain a client/contractor role in managing a new relationship with a new provider. The exact split of those employees directly affected would be determined prior to any transfer to an external provider.
- 6.7 A robust and comprehensive communications and engagement plan is being developed which will, amongst other matters, pay particular attention to workforce engagement. The plan will ensure timely engagement and consultation with all impacted staff throughout the entire project and expressly as part of the TUPE process.

7.0 FACILITY MIX

7.1 At the meeting of Cabinet on 25 July 2017 it was proposed that the facility mix for the new leisure centre should be as follows:

- 8 court sports hall
- 8 lane x 25m pool
- 15m x 8.5m learner pool with moveable floor
- 150 station health and fitness suite
- Multi-activity studio, large enough to be sub-divided to 2 x separate rooms
- 1 spin studio
- squash courts
- Vending area(s)
- Café / bar
- External area for 250 car park spaces

7.2 It is recommended that the above is used as a suggested baseline of core facilities in order to engage the market. The exact facility mix may be amended as part of the negotiations and dialogue with the preferred contractor to help ensure the leisure centre meets current and future needs of residents and will operate with maximum efficiency.

8.0 NEXT STEPS

8.1 Subject to the approval of full Council the procurement work will commence immediately thereafter.

8.2 The project team will undertake a fully compliant Official Journal of the European Union (OJEU) tender process leading to the appointment of a 'preferred bidder' by December 2018.

8.3 The Leisure Project Team will report its ongoing progress to the Leisure Project Board on a regular and timely basis.

8.4 The Chief Executive and Strategic Director of Place in consultation with the Cabinet Member for Community Services will provide timely updates and briefings to elected Members at key milestone stages throughout the procurement process up to and including the appointment of the preferred bidder.

8.5 A comprehensive and robust communications plan is being developed to ensure appropriate and timely consultation and engagement of all key stakeholders throughout the procurement process.

8.6 It is anticipated that following formal award of contract, works will start on site in the spring of 2019. Whilst the completion date of the build will be influenced and determined by the size / complexity of the building, it is suggested that an 18 month build programme be allowed. This would result in a proposed completion date of autumn 2020.