

## Report to Cabinet

24<sup>th</sup> March 2016

By the Cabinet Member for Leisure and Culture



### DECISION REQUIRED

**Appendix 2 -Exempt** under Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972

#### **Proposed Extension to the Leisure Management Contract with Places for People Leisure Limited.**

### Executive Summary

The purpose of this report is to seek Cabinet approval to exercise the option to extend the current ten year leisure management contract with Places for People Leisure Limited (PfP) by a further five years to the end of November 2027. The current contract includes an option to extend the current contract by a further five years and also includes a provision to vary the contract to include a new or replacement leisure centre at Broadbridge Heath. The extended contract would include the management of the replacement Broadbridge Heath Leisure Centre (BBHLC) anticipated to open in early 2018.

The current contract provides for a significant payment to be made to the Council for the management and operation of Pavilions in The Park, Steyning Leisure Centre and Billingshurst Leisure Centre, whilst the management and operation of BBHLC is carried out at a considerable cost to the Council (details can be found in Exempt Appendix 2). Alongside proposals for building a replacement BBHLC, officers have been participating in ongoing negotiations with PfP to agree a contract sum to be paid to the Council in order for PfP to operate the replacement BBHLC. An independent assessment of the likely revenue return of a replacement BBHLC to the Council was undertaken based on the feasibility design proposals and a figure of £59,000 per annum (excluding the management of the Athletics track) was included in the affordability calculations of building a replacement BBHLC, as agreed by the Council in December 2015. These negotiations have resulted in a final offer from PfP which is conditional on the Council extending the current contract for an additional five years to November 2027.

The final offer from PfP results in a significant additional leisure management revenue contribution to the Council over the extended term of the contract. This is in accordance with the benefits expected from running a new purpose built facility with its associated efficiency and income generating opportunities. It also guarantees the Council an improved overall management fee which is considered to be comparable with estimated figures if the Council were to undertake a procurement exercise for the same proposal.

The details of the additional contract revenue associated with extending the existing contract can be found in Exempt Appendix 2.

## **Recommendations**

That the Cabinet is recommended:

- i) To approve the extension of the existing leisure management contract with Places for People Leisure Limited for the period 1st December 2022 to 30<sup>th</sup> November 2027. This will also include operating the replacement Broadbridge Heath Leisure Centre.
- ii) To approve the proposal from Places for People Leisure Limited in respect of a variation to the current management fee payable to the Council (as set out in exempt Appendix 2 of this report) linked to the opening date of the replacement Broadbridge Heath Leisure Centre.
- iii) To delegate to the Director of Community Services, in consultation with the Cabinet Member for Leisure and Culture, agreement of the final details of the contract extension.

## **Reasons for Recommendations**

- i) The replacement Broadbridge Heath Leisure Centre requires the renegotiation of some aspects of the existing leisure management contract between the Council and Places for People Leisure Limited (PfP). A negotiated extension offer would provide the Council with best value for money, as benchmarked by a recent independent evaluation.
- ii) The replacement BBHLC will improve the Council's revenue position once it is built and operational.
- iii) The extension of the current contract will provide continued certainty for the management and operation of the Council's Leisure Centres.

## **Background Papers:**

Exempt Appendix 2: Comparison between PfP and HDC proposals.

## **Wards affected:**

Broadbridge Heath Ward is directly affected by the proposal. Users of the other Leisure Centres come from all areas of the District.

## **Contact:**

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## **Background Information**

### **1 Introduction and Background**

- 1.1 The leisure management contract for The Pavilions in the Park (PITP), Steyning Leisure Centre (SLC) and Billingshurst Leisure Centre (BLC) is for an initial ten year period from December 2012 to December 2022 (with an option to extend for a further five years). PfP have full maintenance responsibility for these Centres (excluding latent defects).
- 1.2 The contract also includes the existing BBHLC for a contract period of only five years so that the Council could undertake an exercise to explore proposals for the possible development of a replacement leisure centre. The current arrangement expires in December 2017 when the Council would need to either renegotiate terms or end the contract. PfP have only very limited maintenance responsibilities for the BBHLC due to its age and condition and therefore the Council is responsible for the majority of the maintenance and repair costs.
- 1.3 As part of the negotiations for the management operation of the replacement BBHLC, Horsham District Council issued PfP with a detailed management specification, guidance on customer pricing and an outline building design. This allowed PfP to provide detailed financial proposals for operating the replacement BBHLC using the same specification and pricing templates as provided in the original tendering exercise.
- 1.4 In tandem with this exercise and in line with the Council's option to extend the contract for a further five years, PfP also offered an improved price for the whole contract being extended to December 2027. Following several rounds of negotiations a 'best and final counter offer' has been made by PfP. This offer is based on the existing feasibility study outline design which may be subject to change. The impact of both the increased BBHLC offer and the contract extension offer are set out in exempt Appendix 2.
- 1.5 To assist in evaluating the original offer from PfP, the Council appointed independent consultants FMG, who specialise in financially modelling leisure management contracts. Their calculations have been used as the basis for negotiations in benchmarking the PfP offer.

### **2 Relevant Council policy**

- 2.1 This report supports the key objectives of 'support our communities' and 'great value services' as set out in the Corporate Plan Priorities 2016-19.

### **3 Details**

- 3.1 The decision whether or not to accept the PfP offer should take account of a number of factors in addition to the financial advantages. The table below details some of the factors that should be considered.

**Table 1 – Contract Extension – factors to consider**

<b>Do Not Extend</b>	<b>Extend</b>
There is an opportunity to retender in 2021 for a new 2022 contract which could provide an improved offer.	Avoid the costs and substantial work of undertaking a procurement exercise where there is no requirement to do so. (Approximately 12-15 month process).
Uncertainty in the next few years about the future leisure management arrangements.	Certainty of value of extension payment now rather than in 2022.
Another tenderer could make a better offer than the current contract offer from PfP.	In 2012 PfP gave the best value offer by a substantial margin against other tenderers.
Risk that if the Council re-tenders all tenders are lower than the current offer from PfP because of the introduction of the Living Wage and arrival of low cost gym operators in Horsham.	PfP have agreed to absorb the implications of the Living Wage until 2027.  PfP will also bear the risk of additional competition from other leisure/gym providers.
	As the buildings within the current leisure contract age, the risk and therefore cost of repairing and maintaining them will rise. A contact extension now means that this risk remains with PfP. PfP will also bear the risk of any future utility cost increases.
	By extending the contract PfP will be bound into making a success of the replacement BBHLC and will help manage the inevitable disruption during the construction period.
	PfP have also offered to absorb the cost of operating the Athletics track circa £20,000 per annum until 2022.

**FMG view**

*The leisure market fluctuates with the economy and therefore it is currently difficult to estimate the potential management fee the Council could achieve from a re-procurement of say a minimum 10-year contract.....*

*.....Overall, we believe that if the Council would like to proceed with (Leisure Centre) Option 3, an extension would be financially viable for the Council ensuring an improved average annual payment to the Council, which is more likely to come from the other sites within the Horsham contract to prevent any re-procurement with competitors. However, a re-procurement could potentially further increase the management fees that the Council could achieve.*

- 3.2 It should be pointed out that the FMG comments were based on the first PfP offer which has now substantially improved. The independent assessment undertaken by FMG indicates that the contract sums negotiated under the ‘best and final counter offer’ provides value for money to the tax payer.
- 3.3 In addition, if the contract is extended by a further five years, PfP has offered an additional revenue stream to the Council for the operation of the High Ropes facility in Horsham Park, details of which can be seen in Exempt appendix 2.

## **4 Next Steps**

- 4.1 This report seeks approval to enter into a contract variation with PfP. The final details of the contract variation will need to take account of any substantial variations to the outline terms agreed between the parties, such as a change to the specification or design for the replacement BBHLC, and for this reason it is proposed that this responsibility is delegated to the Director of Community Services, in consultation with the Cabinet Member for Leisure and Culture.

## **5 Outcome of Consultations**

- 5.1 The Sport & Leisure Advisory Group has been consulted on this proposal and are in agreement to the contract being extended.
- 5.2 The comments of the Head of Legal & Democratic Services and the Head of Financial Services have been incorporated into this report.

## **6 Other Courses of Action Considered but Rejected**

- 6.1 The Council's leisure management contract with PfP commenced in 2012 and the Council has the option to retender the contract in 2022. This option has been given detailed consideration but is not considered to offer certainty of value for money and could potentially result in a disjointed leisure management service.
- 6.2 Given the volatile nature of leisure contracts, re-tendering the contract as a whole for all four centres in 2022 could also result in a significantly reduced revenue position to that currently proposed by PfP.
- 6.3 The Council has no intention to bring the service back in house as this is not considered to be financially viable.

## **7 Financial Consequences**

- 7.1 The key revenue considerations of extending the current contract are set out in the confidential Appendix 2 of this report.

## **8 Legal Consequences**

- 8.1 The relevant procurement legislation has been considered, along with the Councils Procurement Code. The current Leisure Services Management contract allows for an extension for an additional five years so there is no requirement to re-tender at the present time.

## **9 Staffing Consequences**

- 9.1 As the Leisure Centres are managed by a contractor there are no staffing consequences for the Council.

## **10 Risk Assessment**

- 10.1 The benchmarking exercise undertaken by FMG and consideration of the factors set out in Table 1 demonstrates that risks for and against the contract extension have been fully evaluated and this provides a sound basis for the recommendations set out in this report.

## Appendix 1

### Consequences of the Proposed Action

How will the proposal help to reduce Crime and Disorder?	The proposal is considered to be consistent with the Council's policies on reducing Crime and Disorder.
How will the proposal help to promote Human Rights?	The proposal is considered to be consistent with the provisions of the Human Rights Act.
What is the impact of the proposal on Equality and Diversity?	The proposal is considered to be consistent with the Council's policies on Equality and Diversity and with relevant legislation.
How will the proposal help to promote Sustainability?	There is no specific sustainability implication arising out of the proposal to extend the contract. The proposal is considered to be consistent with the Council's policies on Sustainability.