

Bath & North East Somerset Council

DECISION MAKER:	Cabinet	
DECISION DATE:	9th September 2015	EXECUTIVE FORWARD PLAN REFERENCE:
		E 2782
TITLE:	Leisure Contract – Capital Approvals and reserve use	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
None		

1 THE ISSUE

1.1 The Leisure Contract preferred bidder has been announced and the Council is now in a position to fully approve

- the capital budgets for Bath Leisure Centre refurbishment works;
- Council costs associated with the delivery of the contract; and
- Bath Recreation Ground Trust capital works.

2 RECOMMENDATION

2.1 To fully approve the element of current capital budget of £7.635m for Bath Leisure Centre Refurbishment.

2.2 To fully approve the capital budget of £2.0m for potential Council costs associated with the delivery of the contract.

2.3 To fully approve the capital budget of £2.0m for Bath Recreation Ground Trust capital works.

2.4 To extend the use of the Invest to Save reserve to up to 6 years (rather than the previously approved 4 years) to optimise the smoothing of Council and Leisure Operator costs, and that this be repaid over a period of up to 10 years.

2.5 To increase the Leisure base budget by £175kpa to cover the ongoing cost of the annual payment to the Bath Recreation Ground Trust thus increasing the financial pressure on the Council which will need to be considered as a commitment as part of the 2016/17 budget.

3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

- 3.1 Approval of Capital Budgets:** The capital budgets are all provisionally approved in the capital programme, either by approval by full Council as part of the budget report in February 2015 or via the subsequent decision in March 2015 by the Chief Executive in consultation with Group Leaders. This decision is to move the budgets to fully approved status. The element of provisional budget for Keynsham will remain provisional and will be subject to a future decision.
- 3.2 All the capital budgets are funded by Corporate Borrowing. The cost of repaying this borrowing is more than covered by the additional income received from the new Leisure provider over the duration of the contract – Greenwich Leisure Limited (GLL).
- 3.3 Use of Invest to Save Reserve:** In the urgent decision of March 2015, approval was given ‘That an allocation of up to £2.1m be made within the Invest to Save reserve to cover the smoothing of Council or contractor costs in the first 4 years and that this be repaid over a period of up to 10 years, subject to final bids (rather than the currently approved 3 years).’
- 3.4 Having announced a preferred bidder and having an agreed profile of payments between the provider and the Council, in order to best fund the early years of the contract, it is proposed to extend the initial period over which the reserve is drawn down to 31 March 2021, then to be repaid over a 10 year period as previously approved.
- 3.5 The annual payment of £175k to the Bath Recreation Ground Trust does not form a direct part of the Leisure contract, however the impact of this payment on the Leisure budgets is such that the financial benefit of the new Leisure contract is not anticipated to cover the additional commitment until around 2022/23. The change in base budget would remove the impact of this payment and will increase the financial pressure on the Council; this will need to be considered as part of the 2016/17 budget process and the 2015/16 position considered as part of the Council’s overall outturn position.
- 3.6 The current assumption is that interest on borrowing will be 3.5%. There is a risk that interest rates will increase; the impact of a 0.5% increase in interest in a mature borrowing year on the above borrowing is c£36kpa. This would be an additional cost to the Council if it arises and would adversely impact the Leisure budgets.

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

- 4.1 There are no legal obligations arising directly from this report. Public Health and inequalities issues are addressed as a result of this proposal and by the delivery of the Fit for Life Strategy (see details in 5.)

5 THE REPORT

- 5.1 The procurement process for the new leisure contract started in July 2014. This followed the adoption of the Fit for Life Strategy which set out the Council’s priorities around physical activity, including the provision of leisure facilities. There was significant interest in the contract from the market with over 10 submissions at the PQQ stage.

- 5.2 4 bidders were shortlisted and all provided detailed solutions stage bids showing significant improvements above the current level of service.
- 5.3 The shortlist of 4 was reduced to two final bidders at the end of January to enter the targeted dialogue phase of the process.
- 5.4 GLL were chosen as the preferred bidder in May and commenced operation of the contract on 1st July 2015.
- 5.5 The objectives of the new contract are to:
- deliver significant investment in the facilities to bring them up to date, addressing the backlog of maintenance issues;
 - provide a new facility in Keynsham to replace the current life expired facility;
 - reduce the annual cost to the Council;
 - provide a much enhanced user experience; and
 - support the delivery of the Fit for Life Strategy which seeks to improve the health of our population through encouraging *more people to be more active more often*.
- 5.6 In summary the preferred bid turns the portfolio of leisure facilities from being in a poor state of repair with significant maintenance liabilities into modern, fit for purpose facilities with a secure financial future which will make a significant contribution to the delivery of the Fit for Life Strategy.
- 5.7 The Council's initial feasibility studies showed an expected total capital cost of £15 million for the refurbishment of Bath and the new build leisure centre in Keynsham -- taking into account repairs and maintenance issues highlighted in condition survey reports across the portfolio of facilities. Borrowing limits were set to allow for £12 million of Council borrowing and £3 million of investment from the chosen bidder to deliver this work.
- 5.8 During the dialogue phase the 2 remaining bidders proposed enhancements over and above the initial feasibility work which will provide greater increases in participation and income levels. For example a new teaching pool at Bath Sports Centre and a greater range of activities to appeal to families and younger people such as climbing and enhanced soft play which make the contract more financially advantageous to the Council.
- 5.9 As a result of this in March a report was taken to Group Leaders to consider raising the borrowing limits and adjusting the budget to allow for up to £15 million of borrowing to deliver these enhanced works, which was agreed.
- 5.10 At this stage approval to spend is only required for the works to Bath Sports and Leisure Centre as these works are scheduled to start in this calendar year. A report for approval to spend for the Keynsham new build will be tabled once a site has been agreed and work has progressed further on this scheme. It should also be noted that there will be a further requirement for additional budget in

relation to the new build centre in Keynsham for essential associated works once the proposal is more clearly defined. This will be in relation to, for example, car parking provision, land acquisition etc which could be in the region of £3-5 m. These will only become clear once Keynsham feasibility, parking and transport studies have been completed and the viability of the proposals tested. This additional amount will be requested through the normal budgetary process.

5.11 Further to this a budget of up to £2m was approved in principle to undertake additional works required by the Bath Recreation Ground Trust as part of the agreed Heads of Terms to resolve the lease of the Leisure Centre in Bath.

5.12 A capital budget of £2.0m was also approved in principle for potential Council costs associated with the delivery of the contract. These costs will:

- ensure the proper and effective delivery of the proposed improvement works to the leisure centres in the contract;
- secure the delivery of a new leisure centre in Keynsham; and
- provide the necessary support to ensure the effective mobilisation of the contract and the establishment of a robust contract monitoring regime.

- This report seeks approval to spend against these decisions taken in March.

6 RATIONALE

6.1 In order to commence works on site and to support the implementation of the Leisure Contract, the budgets need to be fully approved to enable authorised expenditure.

6.2 The rationale for the Invest to Save decision is largely on a value for money basis, this being the most cost effective way of financing the early years of the new Leisure Contract.

7 OTHER OPTIONS CONSIDERED

7.1 Not to re-procure the contract. This would have involved taking the service back 'in house' as there was no provision to extend the Aquaterra contract. This option would have involved significant costs to the Council with a much reduced prospect of additional income being generated as the Council does not currently have the expertise to do this.

7.2 Condition surveys identified £5.7 million worth of works that needed to be completed to bring the sites up to an acceptable standard. This was to address the falling customer satisfaction with the facilities and ensure usage did not decline and impact on income generation. These works would not have provided any additional income, but would be required to maintain current levels meaning that 'do nothing' was not a viable option. The likely borrowing cost of this work would be c£400k pa over 20 years.

7.3 Bringing the service back 'in house' would have required the Council to develop the facilities itself without the support of the considerable expertise that exists in the market place. Experienced leisure contractors are far better placed to both

deliver the developments themselves and then ensure those facilities are used to drive maximum increases in both participation and income.

7.4 Further to this there would have been significant financial impacts on income and expenditure with a Council operated facility. The Council would also have been required to charge VAT on memberships, something which Charitable Trusts do not, resulting in either a 20% increase in membership cost to the public or a 20% drop in income. The Council would also have been required to pay the full NNDR costs which currently stand at c.£55k per year due to charitable trusts only being required to pay 20% of these costs this would have increased to c.£275k per year.

7.5 The Leisure provider to cover all borrowing over £12m. This would have led to reduced payments to the Council and therefore was not recommended on a value for money basis, however this still requires the Council to provide a guarantee over the additional borrowing.

7.6 The Leisure provider to smooth payments to the Council and cover the balance by borrowing. This would have led to reduced payments to the Council and therefore was not recommended on a value for money basis.

8 CONSULTATION

8.1 Consultation has been carried out with Cabinet Members, Strategic Directors, Section 151 Finance Officer, Monitoring Officer, Divisional Director for Project Delivery, Chief Property Officer, Procurement and external leisure consultant.

9 RISK MANAGEMENT

9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

9.2 The current assumption is that interest on borrowing will be 3.5%. There is a risk that interest rates will increase; the impact of a 0.5% increase in interest in a mature borrowing year on the above borrowing is c£36kpa.

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Background papers	Urgent decision by Chief Executive in consultation with Group Leaders (March 2015): Leisure Contract Procurement Update; Amendment to Borrowing Limits; use of Invest to Save reserve
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