

**HARBOROUGH DISTRICT COUNCIL****REPORT TO THE CABINET MEETING OF 6 SEPTEMBER 2021****PUBLIC REPORT: Y****EXEMPT REPORT: N**

<b>Report Title</b>	Review of Leisure Provision
<b>KEY DECISION</b>	Yes
<b>Report Author</b>	Julia Smith, Director – Communities and Wellbeing
<b>Purpose of Report</b>	<p>To consider the options available for leisure provision and to review the preferred option considering changes to the leisure market and our financial position.</p> <p>To include: -</p> <ul style="list-style-type: none"> <li>- Review of existing delegations</li> <li>- Agreed project governance</li> <li>- Agree project milestones</li> </ul>
<b>Reason for Decision</b>	<p>To obtain Cabinet approval to:</p> <ul style="list-style-type: none"> <li>• Progress with the redevelopment option</li> <li>• To encompass the project within the next procurement of the leisure contract</li> </ul>
<b>Portfolio (holder)</b>	Councillor Whelband
<b>Corporate Priorities</b>	<p>The People: a healthy, inclusive and empowered community</p> <p>The Place: a safe, enterprising and vibrant place</p>
<b>Financial Implications</b>	<p>The existing position is a net capital budget required to deliver each option ranges from £8.75m to £21.53m. For Market Harborough the current allocation within the Capital Programme is £5.2m and for Lutterworth £650K. A spend of £100k was approved to develop full business cases in July '20.</p> <p>The recommended preferred option (redevelopment) going forward would require up to £8.75m of capital investment for Market Harborough and £1m for Lutterworth. This means an additional £3.55m and £350k respectively (this will be included in the forthcoming capital programme). This is a financially better option than the estimated new build cost of £21m.</p> <p>The existing proposals would see an annual net cost to the Council's revenue budget from £87k to £380k per annum. The recommended preferred option would cost the Council an additional £87k per annum. These costs are not currently included in the Council's base budget and would represent budget growth requiring offsetting savings</p>

## REPORT No. 8

	<p>elsewhere in the budget to achieve a balanced financial position. However, within the report there is a suggested way forward as part of the procurement to limit this impact further by passing the cost on to the successful contractor.</p> <p>Any additional MRP costs would need to be met by additional income or savings, this would become apparent through the tender process.</p> <p>When it is identified that additional capital or revenue resources are needed (i.e. post tender or at capital programme setting), at that time Council will be consulted in line with the Constitution.</p>
<b>Risk Management Implications</b>	The risks of both delivering and not delivering this project are included at paragraph 6.0 in the report below.
<b>Environmental Implications</b>	The environmental implications of the preferred option will be worked up in full including any mitigation as part of the project going forwards.
<b>Legal Implications</b>	The procurement and subsequent contracts will be subject to a series of legal requirements. It is on this basis the proposal has been and continues to have specialist legal support to ensure compliance with procurement and contractual arrangements. The legal implications are considered at paragraph 5.0 in the report below.
<b>Equality Implications</b>	A full equalities impact assessment will be completed as part of the procurement and will be built into any leisure provision we develop.
<b>Data Protection Implications</b>	None arising directly from this report at this stage of the process.
<b>Consultation</b>	A full consultation will be undertaken with the public, partners and members as part of the project. This would need to be started within the next few months to really shape the procurement process going forwards and the specification for any redevelopment.
<b>Options</b>	Option A: Do nothing. Option B: Redevelop/Redesign the existing provision in Market Harborough and invest £1 million in Lutterworth. Option C: Continue with previous decision to work up a New build to full business case in addition to considering the redevelopment option alongside this.
<b>Background Papers</b>	<ol style="list-style-type: none"><li>1. Report to the Executive 15 May 2017</li><li>2. Report to the Executive 4 September 2017</li><li>3. Report to the Executive 9 April 2018</li><li>4. Report to the Cabinet 6 July 2021 and accompanying outline business case</li><li>5. Report to Council 25 July 2021</li></ol>

## REPORT No. 8

	<p>6. Future Leisure Provision Consultation Summer 2017 Findings Report</p> <p>7. Built Sports Facilities Strategy 2021</p> <p>8. Physical Activity Strategy 2018-2023</p> <p>9. Report from Sport England Consultants March 2020</p>
<b>Appendices</b>	<p>1. Outline Business Case July 2021</p>
<b>Recommendation</b>	<p><b>Officer recommendation is to:</b></p> <ol style="list-style-type: none"><li><b>1. Agree Option B as the preferred way forward.</b></li><li><b>2. Agree to work to timescale option 2.</b></li><li><b>3. To undertake community engagement on the preferred option to help shape the procurement.</b></li><li><b>4. Approve £50,000 from the existing capital budget to take the project forward.</b></li><li><b>5. Approve a further £3.55m investment in Market Harborough and £350k in Lutterworth for the procurement process by HDC and update the capital programme as part of the forthcoming budget planning process.</b></li><li><b>6. To utilise the existing Leisure Project Board to monitor the procurement as outlined within the report and agree the final specification for procurement.</b></li><li><b>7. To utilise the existing Leisure Project board to support the procurement process and make a recommendation to Cabinet and Council as to the successful provider for consideration.</b></li></ol>

### 1.0 Key Facts

- Recommended option is a redevelopment of the existing facility
- There is a need to undertake wide consultation with our communities about their views on our leisure provision
- This report is asking for a preferred option at this point and does not commit HDC to redevelop the existing facility, just to the procurement of the next contractor. The decision to progress will be taken once all the procurement tenders have been submitted and full detail and costs are understood by officers and members.
- We are on the right track to obtain Sport England funding for the redevelopment and to engage partners in the new facility.

### 1.0 Introduction

- 1.1 The Council has been actively investigating how to enhance its leisure provision in the district since autumn 2017. To-date the preferred option throughout this process has been to redevelop or replace the current leisure centre at Market Harborough and to refurbish the Lutterworth leisure centre.

- 1.2 To clarify the current position the relevant decisions made to this point are given below:

**May 2017 Executive decision:**

- A new build in Market Harborough and Refurbishment at Lutterworth Sports Centre was approved as the preferred option for future provision of leisure facilities.
- It was agreed that a procurement exercise would be followed to secure engagement from external providers.

**September 2017 Executive decision:**

- A budget of £21.6 million was agreed for inclusion in the Capital Programme.
- A Design, Build, Operate and Maintain (DBOM) approach was agreed as the preferred option for procurement.

**October 2018 Delegated decision by Joint Chief Executive (BJ):**

- Due to the market not responding to the DBOM approach as envisaged, a new leisure management arrangement was agreed with SLM to allow the project to progress. The contract agreed is from April 2019 to 31 March 2022 with an option to extend to 31 March 2023.

**July 2020 Cabinet Decision:**

- To develop to full business case a redevelopment and new build option for Market Harborough and £1million investment in Lutterworth leisure centre. The exact resolution was as follows:

*RESOLVED that:*

- (i) Options B and F be agreed as the preferred business options moving forward.*
- (ii) for the final report, members to consider options to deliver revenue savings and/or additional income to mitigate the additional costs relating to the financing of the preferred Options as set out in (i) above.*
- (iii) community engagement be undertaken on the preferred options to help inform the final business cases.*
- (iv) existing delegations be removed relating to the procurement method.*
- (v) existing delegations be removed relating to the preferred option for leisure provision.*
- (vi) revenue funding be approved up to a maximum of £100,000 for the review of the Preferred Options. This cost to be built into the option viability appraisal for all the options; thereby ensuring that the revenue budget is secured over the medium term.*

- 1.3 Such large capital investment decisions are complex at the best of times and do take some time to come to fruition. The Covid 19 pandemic has had serious impacts on the progression of this project resulting in the Leisure Project Board pausing the project from September 2020 – August 21. The leisure market and our position is different from the time the original decision was made, there are considerable uncertainties over the medium term for the state of the economy, public finances in general, the market for leisure, the costs of construction, and the state of the council's finances. It is therefore necessary for good decision-

making and governance that the council revisits the decisions made so far regarding this project to determine the best way forward given the changed environment that now exists, and which was obviously not foreseen when this project commenced.

**2.0 Leisure Project Board Review – Where are we now?**

2.1 The two options for Market Harborough that were being developed as referred to in the introduction were as in the table below:

<b>Option</b>	<b>Description</b>
Option B – Redevelopment/Part New Build	<ul style="list-style-type: none"> <li>• Major redevelopment of the existing site to include additional facilities (such as studio space and health and fitness)</li> <li>• Enhancement of the overall development to create a ‘new’ facility</li> </ul>
Option F – New Build (Enhanced) Alternative Site	<ul style="list-style-type: none"> <li>• Development of a new facility with the enhanced facility mix on the existing site</li> <li>• Seeking continuity of use through building an alternative site to the north of Market Harborough and then demolishing the existing site</li> </ul>

2.2 The costs as established through the previous outline business case in July 2020 for these options are as per the table below:

<b>Option</b>	<b>Total Capital £’m</b>	<b>External Funding £’m</b>	<b>Net Capital Required £’m</b>	<b>Annual Management Fee £’000’s</b>	<b>Borrowing Costs to the Council</b>	<b>Annual Cost to the Council</b>
Option B – Redevelopment	9.75	1.0	8.75	(219)	306	87
Option F – New Build (Enhanced) Alternative Site	23.76	2.24	21.53	(463)	842	378

2.3 Due to covid and subsequent decisions, the project is a year behind schedule at this stage and the demand and need for improved leisure is significant. Sport England have indicated they would still be willing to invest in either a redevelopment or new build facility in Harborough subject to the meeting of certain conditions. In addition, we are in the process of reviewing our Health

and Wellbeing Strategy which will involve a wide consultation, as such there is an opportunity at this point in time to ask some key questions of our communities and members to shape how the scheme develops. We also have partnership interest in co-location at the existing or new build site, which meets with the aims of creating a health and wellbeing hub within the new or redeveloped centre. In this respect the project outcomes are still very positive.

- 2.4 We have tested the market through speaking to some leisure providers and SLC who we have used as our consultants for the Covid response. The market has indicated that a complete overhaul of the site could offer the same level of change and quality as a new build facility. They would suggest the terminology of a ‘complete redevelopment’ be used from user experience feedback as opposed to redevelopment if we selected this route.

**3.0 Next Step Options**

- 3.1 We have identified a new way of undertaking procurement exercises when a capital investment is available for a redevelopment, which have been successful in a couple of contracts that have been recently procured.

The procurement process requires us to provide a pool of funding we are willing to invest in the facility i.e. £9 million. As part of the procurement for a new contractor leisure providers determine the money they need to make the investments required within parameters provided by the authority. As part of this they are also responsible for meeting the capital repayments in the money invested for the life of the contract. This would enable us to utilise industry experts to design the new facility within the requirements we set and ensure the impact on our revenue stream is reduced significantly. Once the contract has ended the authority would pick up any outstanding payments. In recent procurement exercises this has been successful in realising a management fee from the contractor, significant investment in the facility and no impact on the revenue stream. On this basis this should be a serious consideration for HDC.

This option would allow HDC to choose the contractor and shape the redevelopment work which could also see a commercial type of investment at the existing site with little risk for the authority.

- 3.2 If members decided to progress with the redevelopment option the implications in terms of timescales are detailed in the table below. It details an immediate start timescale and an option to take a bit more time to allow full market recovery and tie in with our existing provider extension which is currently being negotiated.

<b>Timescale Option 1</b>	<b>Operator Procurement</b>	<b>Timescale Option 2</b>
Jul 2020	• Sign off Outline Business Case - Complete	Jul 2020
Aug – Sept 2021	• Establish team and review documentation. - Complete	Aug – Sept 2020
Sept 2021	• Appoint Leisure Consultant - anticipated Oct 21 – costs were established but need revisiting approx. £45,000	Sept 21

<b>Timescale Option 1</b>	<b>Operator Procurement</b>	<b>Timescale Option 2</b>
	<ul style="list-style-type: none"> <li>Partnership discussions – started</li> <li>Prepare Procurement Strategy – options paper produced</li> </ul>	
Oct – Mar 2021	<ul style="list-style-type: none"> <li>Tender Stage – seek options from market</li> <li>Development of outline designs</li> </ul>	Jan 22
Apr – Jul 2022	<ul style="list-style-type: none"> <li>Final Tender Stage</li> <li>Detailed Design Development</li> <li>Appoint Operator</li> </ul>	Aug 22 – Feb 23
Jul 2022 – Nov 2022	<ul style="list-style-type: none"> <li>Mobilisation and finalise contract</li> <li>Planning Applications</li> <li>Pre-Construction Development</li> <li>Contract and construction commences</li> </ul>	Feb 23 – April 24
Dec 2023	<ul style="list-style-type: none"> <li>New Facility Open</li> </ul>	Dec 24

Please note that if our existing provider was the successful contractor then this could be delivered earlier but we cannot pre-empt this and it would be a full, fair and transparent procurement process.

3.3 If members wished to continue with the new build option then an indicative timescale is given below. This was a very optimistic timescale option, with no risk and contingency built in for land purchase. The land purchase options have not progressed as this point and there is a requirement to spend in the region of £200,000 to get the design work undertaken.

<b>Timescale</b>	<b>Design Development &amp; Construction</b>	<b>Operator Procurement</b>
July 2020	<ul style="list-style-type: none"> <li>Sign off Outline Business Case</li> </ul>	
Oct 2021	<ul style="list-style-type: none"> <li>Identify land opportunities</li> </ul>	
Sept - Nov 2021	<ul style="list-style-type: none"> <li>Development of Design Feasibility (RIBA Stage 2)</li> <li>Sign off Design Concepts</li> <li>External Funding Applications if required</li> </ul>	<ul style="list-style-type: none"> <li>Prepare Procurement Strategy</li> <li>Standard Questionnaire Stage – appoint shortlist</li> </ul>
Dec – Apr 2022	<ul style="list-style-type: none"> <li>Detailed Design Development (RIBA Stage 4)</li> </ul>	<ul style="list-style-type: none"> <li>Tender Stage – seek options from market</li> <li>Market input into design development</li> </ul>
May 2022	<ul style="list-style-type: none"> <li>Development and sign off Full Business Case</li> </ul>	
Apr – July 2022	<ul style="list-style-type: none"> <li>Planning Application (minimum time)</li> </ul>	<ul style="list-style-type: none"> <li>Final Tender Stage</li> <li>Appoint Operator</li> </ul>
Sept 2022 – Dec 2023	<ul style="list-style-type: none"> <li>Construction commences</li> </ul>	<ul style="list-style-type: none"> <li>Mobilisation and finalise contract</li> <li>Contract commences (Apr 2022)</li> </ul>
Dec 24	<ul style="list-style-type: none"> <li>New Facility Open</li> </ul>	<ul style="list-style-type: none"> <li>Operator takes on new facility</li> </ul>

**4.0 Financial implications**

- 4.1 The financial implications for a redevelopment as opposed to a new build are significantly reduced, as discussed in 3.1 of the report.
- 4.2 The capital expenditure would need to be funded by the council borrowing the money as required. As explained in the paragraphs that follow, the consequential costs of this borrowing are not currently included in the base revenue budget and would therefore represent a growth in the budget requiring offsetting by either financial savings and/or income generation elsewhere in the Council's services to achieve a balanced financial position. However, the proposals include the successful contract having to meet the repayments of the funding required as such limiting the impact. Although dependent on the length of the contract these costs would return to the authority at the end of the contract and as such this needs considering.
- 4.3 Cabinet is asked to consider whether the Council can afford to invest £21.6m in one (albeit highly desirable) capital project. Harborough District is not a big district council in relative terms and does not have a large balance sheet or revenue budget. This means that the amount of borrowing it can undertake in a proportionate, sustainable, and affordable way is limited (particularly if the capital investment does not generate new income streams). Investing such a large sum in one project may mean that other desirable projects and capital investment required in the future may not be able to be funded. The proposed £9m investment is more affordable on the basis described.
- 4.4 In reality, and before the Covid 19 pandemic broke out, the operator intended to pay the Council a profiled annual management fee negotiated as part of the procurement process for the current three-year contract. Since Covid 19 the Council has agreed to pay the contractor certain costs and to waive the management fee for a certain period to safeguard the contractor remaining in business and to obviate the need of the Council having to take over the running of its leisure centres. This situation is improving and according to industry experts we should see a return to existing arrangements and general market improvements over the next 2 years. Our contract is performing particularly well and is almost back to pre-covid levels of participation.
- 4.5 The recommended preferred option would cost the Council an additional £87k per annum based on the original outline business case.. The actual cost will not be known until the procurement process is undertaken and the appetite for the approach set out is understood. On this basis it would be fair to assume at this point in time that this is a worst-case scenario cost for the redevelopment option as outlined.



- 4.6 Estimated project costs: The following table identifies the estimated financial commitment needed to undertake the procurement and to deliver the project in full as outlined within the report.

	<b>Full Project Estimated Costs</b>
	<b>£000s</b>
Specialist Leisure Support	20
External Legal Support	40
Specialist Finance and Taxation Support	12
Contingency (depending on procurement route)	30
Project Management (if not sourced internally)	30
<b>Total</b>	<b>132</b>

- 4.7 There is therefore a total requirement at this stage of approximately £50k to be taken from the Capital Budget agreed to deliver this project in terms of project management and leisure consultancy which would be a combined procurement.

## **5.0 Legal Implications**

- 5.1 There are no legal implications in progressing with the redevelopment option beyond those already identified. However, we have verified that if we change our preferred option at this point that no contracts have been entered into that need to be altered and we have not committed legally to pursue any of the options considered thus far.

## **6.0 Risks**

- 6.1 The procurement of a new leisure centre and operator is a major project with complex delivery issues, risks and dependencies. A full risk register for the project is being managed in accordance with the Council's Project Management methodology.
- 6.2 The existing project has identified significant risks in progressing with the new build option in particular:-
- The capital construction estimates are not yet certain and could be too low. The costs are not yet based on detailed (RIBA stage 4) designs. It is also uncertain whether construction costs will increase because of Covid 19 (for example the costs of introducing social distancing measures at construction sites). The costs of constructing a new leisure centre at the alternative site are likely to be underestimated as no purchase price for the land has been agreed and the cost of providing the infrastructure needed is very uncertain.

- Future operating costs and income estimate could be inaccurate as the implications of Covid are not fully known at this point, we do know labouring costs, material costs and land costs have all increased since the covid pandemic.

6.3 The risk will be reduced significantly with the redevelopment option and many of the financial and management risks will be transferred to the operator if the procurement process is agreed.

### **7.0 Consultation**

7.1 It is recommended as highlighted in the previous cabinet report that a full consultation is undertaken aligning it with the health and wellbeing strategy to help inform the specification for the redevelopment and that a wider members consultation is undertaken to ensure this is built into the procurement process.

### **8. Project Governance**

8.1 The project governance and project management procedures for this project will be drawn up for agreement with the Leisure Project Board.

### **9.0 Recommendations**

9.1 Based on the research, consultant advice, our financial position, and an assessment of the risks and uncertainties involved, it is officers' recommendation that we progress with option B a redevelopment. This option will deliver a significantly enhanced leisure facility meeting the needs of our communities for the foreseeable future.

9.2 To align with the existing negotiations around contract extension and allowing the market to settle that we proceed with timescale option 2 for the project.

9.3 A full consultation exercise is undertaken aligned with the health and wellbeing strategy to help shape the specification for both Market Harborough and Lutterworth centres.

9.4 Approve £50,000 from the existing capital budget to take the project forward through the procurement of leisure consultants to support with the process.

9.5 Approve a further £3.55m investment in Market Harborough and £350k in Lutterworth for the procurement process by HDC and update the capital programme as part of the forthcoming budget planning process.

9.6 To utilise the existing Leisure Project Board to monitor the procurement as outlined within the report and agree the final specification for procurement.

- 9.7 To utilise the existing Leisure Project board to support the procurement process and make a recommendation to Cabinet and Council as to the successful provider for consideration.