

REPORT TO THE EXECUTIVE MEETING OF 15<sup>th</sup> MAY 2017

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**Meeting:** Executive  
**Date:** 15th May 2017  
**Subject:** Leisure Options  
**Report of:** Beverley Jolly, Corporate Director  
**Portfolio Holder:** Councillor Phillip King & Cllr Michael Rickman  
**Status:** For Decision  
**Relevant Ward(s):** All

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1 Purpose of the Report

- 1.1 To set out the Council's wider role in promoting healthy lifestyles and agree to the development of the Council's first Physical Activity Strategy to provide a framework for bringing a number of related local agendas together under one integrated strategy for the District.
- 1.2 To recommend a preferred option of a new build Leisure Centre for Market Harborough and a refurbishment for Lutterworth Sports Centre as the basis for future provision of leisure facilities.
- 1.3 To recommend the design, build, operate and manage procurement model as the preferred procurement route subject to carrying out soft market testing with external providers.

2 Recommendations:

- 2.1 To conduct an eight week consultation to inform the development of a new Physical Activity Strategy (Draft attached at Appendix B).
- 2.2 To approve Option D (new build at Market Harborough and refurbishment at Lutterworth Sports Centre) as the Council's preferred option for future provision of leisure facilities.

Subject to the approval of 2.2

- 2.3 To engage with the public and relevant stakeholders on the facilities to be provided.

- 2.4 To consider the future of bowls provision at Market Harborough including consultation with users and other stakeholders.**
- 2.5 To agree that a procurement exercise be followed to secure engagement from external providers.**
- 2.6 To agree in principle that the DBOM (Design, Build, Operate and Manage) model be the preferred model for procurement subject to the outcome of soft market testing with providers.**
- 2.7 To delegate to the Corporate Director (BJ) to determine the appropriate procurement procedure and to commence the procurement process and to set up appropriate governance frameworks.**

### **3 Summary of Reasons for the Recommendations**

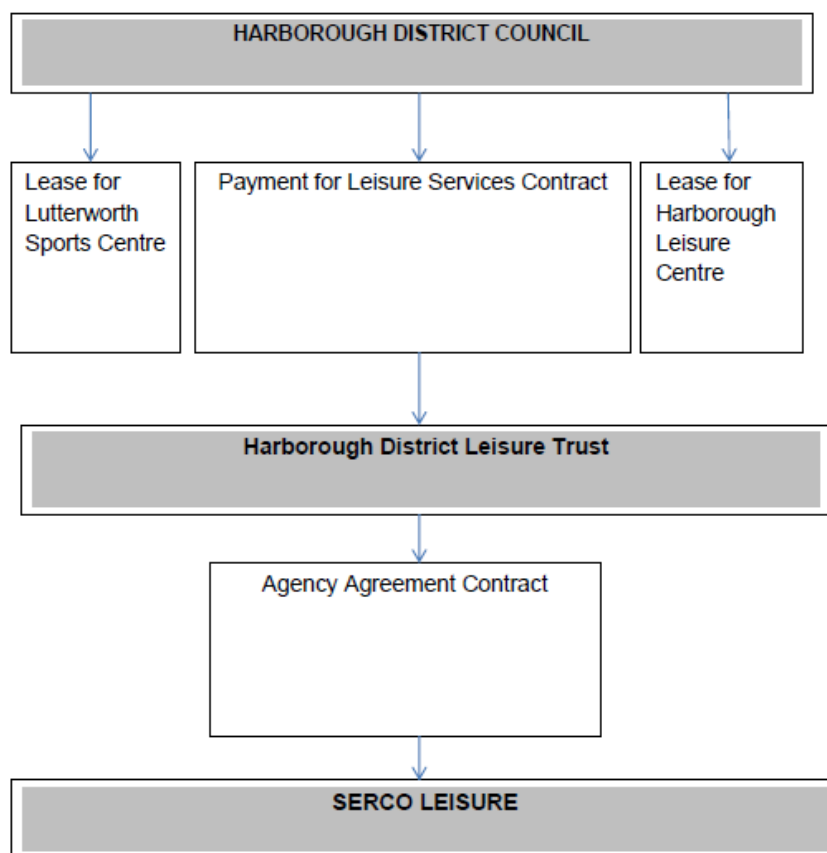
- 3.1 The current contract with Harborough District Leisure Trust ends on the 31<sup>st</sup> March 2019.
- 3.2 The range of Leisure Delivery Options now operating across the country means that the Council would benefit from soft market testing with providers to establish interest in delivering Leisure Services within the Harborough District and the most appropriate and cost effective structures to do this.
- 3.3 To undertake a period of engagement on the draft Physical Activity Strategy and preferred option for future provision of leisure services within the District.

### **4 Key Facts**

#### **4.1 Background**

- 4.2 In 2004, the Council entered into a 15 year contract with SERCO for the delivery of leisure services at both Harborough Leisure Centre and Lutterworth Sports Centre. In May 2008, the client function under the contract was novated to Harborough District Leisure Trust (HDLT) in order to realise the benefits of community governance.
- 4.3 Harborough Leisure Centre and Lutterworth Sports Centre were both leased to HDLT for the remainder of the above contract.
- 4.4 The existing contract and lease structure for the services provided is given in Figure 1 overleaf.

Figure 1 – Existing Contract and Lease Structure



4.5 HDLT is a company limited by guarantee and a registered Industrial Provident Society. This provides charitable status and financial benefits such as the awarding of 80% mandatory relief from business rates. The current framework with the Leisure Trust is structured as follows:

- (a) The Buildings are owned by Harborough District Council.
- (b) Harborough District Leisure Trust is responsible for maintenance of the buildings throughout their contract period – this is factored into HDLT’s contract with Serco.
- (c) Serco invest in the building to meet their obligations alongside investment in equipment and facilities to promote usage.
- (d) The Council pay an annual subsidy of c £135K to HDLT for the operation of the two Leisure Centres.

There are currently 5 trustees with a range of professional backgrounds and skills. The Council have no representation on the Trust.

4.6 At the end of the current contract, 31<sup>st</sup> March 2019, the Council will have two leisure centres to offer to a new contractor to deliver leisure services on behalf of the Council. Although the Council has served dilapidation notices on the Trust, and these repairs have been carried out during the current contract, there will be further investment required in the future. Initial estimates indicate that there is £2 million of condition survey investment that would be required over the initial 10 year period, even if there was to be no refurbishment or changes in use within the Leisure Centres, as further explained below.

4.7 The Asset Values within the Council's accounts are:

Centre	Asset Value	Condition Survey Investment #
	£000s	£000s
Harborough	5,684	1,750
Lutterworth	7,279	250

# - required over next 10 years

The Leisure Centres are valued on a net book value basis in accordance with the Council's Accounting Policies. This does not represent the market value if the facility was to be sold or disposed of.

4.8 The Council has commissioned building surveys to assess the current condition, with a view to ascertaining the likely expenditure from lease expiry for a further 10 years. This has identified a significant requirement for Harborough Leisure Centre due to the age of the building. The report identifies approximately £2m of expenditure across the two leisure centres as in the table above. In summary;

- Lutterworth Sports Centre was built in 2005 and is, generally, in good condition and meets the needs of the population.
- Harborough Leisure Centre was built in 1990 and will require significant expenditure on life expired items over the 10 years following the current contract expiry. The building does not currently meet modern standards and the layout is disjointed. As such, there are areas of wasted space which increases the running costs of the building whilst not adding any value to the operation.

The majority of the condition survey investment is in the Harborough Leisure Centre which is viewed as being more time expired than Lutterworth Sports Centre and being less well suited to providing 21<sup>st</sup> Century Leisure Facilities.

#### 4.9 Physical Activity Strategy

4.10 The Council has a key role in promoting healthy lifestyles, which stretches beyond providing Leisure Centres, although they are very important. However, to make the most out of Leisure Procurement opportunity post 2019

it is important to identify the wider health needs of the district and also consider the role of other Council functions and services. These include;

- Support to independent instructors and clubs who provide affordable sport, physical activity and wellbeing sessions throughout the District.
- Improving and extending community buildings and schools and encouraging greater use of these facilities.
- The Council's specialist services such as exercise referral, cardiac rehabilitation, and falls prevention classes.
- The design and maintenance of parks and open spaces including outdoor gyms, multi-use games areas, and play areas.
- Responsible development that ensures footpaths, cycling infrastructure, and other design issues are considered throughout the planning process.

The strategy provides a framework for bringing a number of related local agendas together under one coherent strategy for the District.

- 4.11 The ultimate aim of the Physical Activity Strategy is to create a network of high quality, accessible and sustainable sport and leisure opportunities across the Harborough District that encourages increased participation, improves health and wellbeing and enhances quality of life for residents now and into the future. The Council primary role is as a facilitator and enabler rather than a provider of all opportunities. The Physical Activity Strategy supports the principle of the Council owned Leisure Centres and other providers as hubs where some of the above outcomes will be delivered from and where outreach services could also be delivered from.
- 4.12 Building on the success of the current interventions by the Council's sports and leisure team (funded by Council and Public Health funds) and the leisure opportunities afforded from the end of the current contract with HDLT it is timely to develop a coherent strategy for the future to ensure that opportunities for physical activity and maintaining a healthy lifestyle keep pace with change in the District and reflect the needs of a growing and changes in demographic profile for older and younger people. The identified needs of the Physical Activity Strategy will be incorporated into the Council's requirements in the proposed Leisure procurement.
- 4.13 The Leisure Market is now much more competitive than when the original Leisure Centres were built. Usage has declined as a result of competition and the 'attractiveness' of the leisure centre offer within the District and newer facilities being built in neighbouring Councils.

#### 4.14 Exposure to the Leisure Market

4.15 Since the formation of the Leisure Trust in 2008 there are now many more models for the delivery of Leisure Services across the country which are summarised in Appendix A – A6 of the RPT Consulting Report. In commissioning Leisure Services Councils are now looking for:

- (a) Positive revenue returns rather than subsidy.
- (b) Potential for a core provision (e.g. swimming, gym and sports hall) supplemented by more commercial offerings from a contractor.
- (c) Integrated Design and Build (and potential operation).
- (d) Flexibility over the contract period.
- (e) Potential Integration of Leisure Centre and outreach activities.

4.16 There is increased competition within the leisure market from private operators and from other public operated provision where new or refurbished facilities have been provided. As a result, people are either accessing leisure opportunities based on quality and the whole 'leisure experience' or on price and hours of access. The competition has meant that HDLT and SERCO have struggled to retain market share based on the facilities currently offered from the two Leisure Centres.

4.17 Therefore, due to the need for significant investment outlined, the fact that private sector providers have wider expertise and coverage than that available within HDLT, and the fact that there is no current in-house resource that could be used to develop an in-house service, it is recommended that the fifth or sixth option within Appendix A6 is adopted. This sees a private sector-based model, appointed through a competitive process, either in conjunction with a hybrid trust or without. There are also advantages as set out in paragraph 4.32 in relation to risk transfer. However, this would not preclude HDLT from tendering as part of that procurement process.

#### 4.18 Development Options

4.19 The Council commissioned RPT Consulting to undertake an options appraisal detailing the need for leisure facilities within the District. These options have been developed and agreed through a Member's workshop on 1<sup>st</sup> February 2017 and input and challenge from Member and Officer Project Board.

4.20 The Four Options identified were

- A. **Do Nothing:** This retains the Leisure Centres as current and does not enhance or alter the facilities on offer. The would still require major investment to undertake the condition survey work over the next ten years;

B. **Refurbishment:** Expanded health & fitness at Market Harborough and changes in the use of the Foyer and Central Core at Lutterworth, for example, new soft play & “clip n climb”

C. **Major Refurbishment:** Part new build (Health & Fitness) and refurbishment at Market Harborough and changes in the use of the Foyer and Central Core at Lutterworth, for example, new soft play & “clip n climb”

D. **New Build:** New Build at Market Harborough and changes in the use of the Foyer and Central Core at Lutterworth, for example, new soft play & “clip n climb”

More detailed analysis of the options and potential schematic diagrams is included in the RPT Consultancy Report (Appendix A), paragraphs 3.8 to 3.20.

#### 4.21 Financial Analysis of the Options

The financial analysis is summarised in the table below

	Option A Do Nothing	Option B Refurbishment	Option C Major Refurbishment	Option D New Build
Indicative Capital Costs (£'million) #	2.0	6.4	8.5	15.1 (based on assumptions in the Options Appraisal regarding a mix of facilities and estimated cost)
Key Risks	<ul style="list-style-type: none"> <li>• Costs estimated for 10 years only</li> <li>• Additional costs Likely</li> <li>• Risk of failure sits with the Council</li> </ul>	<ul style="list-style-type: none"> <li>• Some risk transfer on full maintenance</li> <li>• Latent defect for unimproved areas remains with the Council therefore the risk remains with the Council</li> <li>• Additional Investment likely to be required (10-15 years)</li> <li>• Capital financed over 10 years</li> </ul>	<ul style="list-style-type: none"> <li>• Full risk transfer on Life Cycle Costs</li> <li>• Capital financed over 25 years</li> </ul>	

Obsolescence	Immediate	10-15 years	10-15 years	25 years +
Operating Position	x Increased revenue cost	✓ Revenue Payment to Council	✓ Revenue Payment to Council	✓✓ Best Revenue Position
Capital Funded	None	Part Funded	Part Funded	Majority Funded
Net Additional Cost per annum compared to existing (£'000's)	276	225	434	75

# - based upon external Quantity Surveyor advice, but will be subject to market testing

4.22 The options have been appraised against the following criteria:

- The length of any future arrangement, for example the refurbishment option is likely to be appropriate for a shorter term operating contract (such as 10 years), whereas a major new build will provide a longer term solution for the Council (25 years).
- Location of any new build as outlined above.
- Affordability – the capital cost of any new build will be greater, however it is likely that the revenue return will be greater.
- Future provision of bowls and how critical this is to the business and leisure provision for the District.
- Future facility mix of any new build – delivering on the future needs.
- Procurement – is a DBOM approach the most appropriate way forward or a contract with a lower level of investment (if refurbishment).
- Additional activities and outreach – it will be important that any new development option and contract considers how to ensure that outreach work and sports development takes place across the District to supplement the facility development.

4.23 The estimated Capital Costs range from £2 million to address condition surveys to £15.1 million for a new build in Market Harborough and a refurbishment at Lutterworth. Capital Investment and associated borrowing needs to be accounted for over the anticipated 'life of the asset'. Given the existing age of the Leisure Centres it is considered that refurbishment would require the capital to be financed over 10 years whilst for a new build the capital could be financed over 25 years. The projected cost of capital is detailed in the table below:



	<b>Option A Do Nothing</b>	<b>Option B Refurbishment</b>	<b>Option C Major Refurbishment</b>	<b>Option D New Build</b>
Capital Costs (£million)	2.0	6.4	8.5	15.1
Annual Cost of Capital (£000s)	215	684	911	812*

\* A new build is also forecast to increase usage and therefore income

The above table illustrates significant capital investment for all four options with high levels of prudential borrowing required to be funded (where possible) by increased revenue streams from increased usage of the Leisure Centre. Due to the length that any investment enhances the life of an asset the annual cost of capital for a £15.1 million New Build is less than that for a £8.5 million major refurbishment. Investment in a new build would also provide for an asset with a life of between 40 - 50 years, whereas all the other options have a significantly reduced asset life and the likely need for a new build in 10 or more years.

- 4.24 The Physical Activity Strategy and investment proposals for our Leisure Centres aim to increase participation in physical activity and participation. Indicative modelling (detailed in Appendix A) suggests an increase in the number of visits to the Leisure Centres by 9.74% by 2023 (if a New Build was to be built). Growth in Health and Leisure Memberships will also increase the revenue projections (especially from a new build). The revenue projections of the four options are detailed in Appendix C – Table 1(Exempt).

It is anticipated that if the Council did nothing and only invested in condition survey repairs that the net revenue subsidy would have to increase from 135K to £195K per year.

The tables in Appendix C (Exempt) highlights that a new build is forecast to lead to a 45% increase in Income and a 408% increase in the Operational Surplus. Improved operational surpluses are also delivered through minor refurbishments (option B) and major refurbishment (option C).

Based on site visits to other new build facilities it is considered that the 9.74% increase in visits could be viewed as conservative, though this can be impacted upon by developing local competition especially in respect of gym memberships.

- 4.25 Provision of Leisure Facilities is a specialist and complex area of operation where issues of risk transfer between the Council and an Operator are important in areas such as:

- (a) Investment and Maintenance liabilities for the Building – lifecycle Costing
- (b) Attendance forecasts not being met
- (c) External Competition, etc.

The level and pricing of risk transfer will be assessed through the procurement process. In general terms, the Council will be seeking for an operator to take the risk of these areas, whilst factoring in some profit share if the business case targets and profits are exceeded. The indicative modelling builds this in. This concept of transferring the risk supports the recommended option (subject to soft market testing) of a Design Build Operate and Manage (DBOM) solution. This is detailed in paragraph 4.31.

- 4.26 The current modelling indicates that all four options will cost the Council more than the current arrangement (as detailed in Appendix C table 2 (exempt)).

This is due to the significant capital investment costs linked to condition, refurbishment or new build.

The Council should consider whether it could reduce the net budget requirement as outlined in Appendix C (exempt) through:

- (a) Reviewing the list of core requirements to deliver the leisure centre project within a reduced affordability envelope
- (b) Encouraging an operator to introduce commercial offerings as a variant bid and thereby reduce the core cost to the Council.
- (c) The possibility of achieving a net capital receipt (after any investment/purchase price of a new site) through relocating Harborough Leisure Centre, thereby reducing the cost of capital. Alternatively the Council could apply its existing capital receipt reserve (balance at 1<sup>st</sup> April 2016 £2.455 million). On the new build option, each £1 million would save £54K per annum borrowing costs on the new build (25 year borrowing option).

Through application of the above it is possible that the borrowing costs could be reduced from the £15.1 million used in the modelling and thereby reduce the net operating subsidy (after capital costs) below that current paid.

- 4.27 In assessing the value for money assessment of the proposals Members need to consider:

- (a) The need to significantly invest in or replace time expired Leisure Centres if the council continues to provide these facilities.

(b) Projected increase in participation in physical activity delivering Critical Outcome CO4 **'People have opportunities to access a range of leisure, sport and physical activities'**

4.28 Members are being recommended to endorse a programme of soft market testing to draw in the market view on the most appropriate model for future leisure provision within the District and on the conduct of its procurement exercise.

#### **4.29 Delivery Options**

4.30 The provision of Leisure Centres under the recommended Option D as above requires a contractor to design and build a Leisure Centre and a Leisure Operator to run the Leisure Centre for a given period of time. Traditionally these would have been two separate procurements. However, more recently an option of a Design, Build, Operate and Manage contract is being delivered within the Leisure Market which provides an integrated solution, single contract and by implication a transfer of construction costs and operating performance risks when the contract is signed.

4.31 The Council have two key options for the build and subsequent management of our Leisure Centres. These are detailed in the table below:

<b>Option</b>	<b>Key Points</b>
Design and Build with a Separate Leisure Operator	This would involve two separate procurements where the Leisure Centre is designed and built by a partnership between an architect and construction company and handed over to the Council who would then appoint a separate leisure operator. Contracts with a leisure operator tend to be for 10-15 years. Some risks re maintenance are retained by the Council.
Design, Build, Operate and Manage (DBOM)	This involves one procurement with one contractor who will design, build and subsequently operate the leisure centre. Contract period tend to be between 20-25 years as bidders accept more risk for maintenance and usage over the period of the contract.

4.32 Further analysis of some of the factors that influence the decision between the two are set out in the Options Appraisal at Appendix A, table 4.1 (page 23 of RPT consulting report). The key to any decision is a view on what risks are retained by the Council and which are transferred to a Consortium/Operator. Risks transferred to a consortium will be priced into their offer. A useful summary of the risk management issues is attached in **Appendix A**, Table 4.1 of the RPT report and replicated below:

Risk	Risk Management	
	Traditional/D&B	DBOM
Interface Risk	<ul style="list-style-type: none"> <li>• Council will be involved in any negotiations between operator and construction and may pick up costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Managed by Consortium and any costs fall to consortium</li> </ul>
Capital Cost Risk	<ul style="list-style-type: none"> <li>• Can be managed through penalty clauses, but Council will pick up any costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Managed by Consortium and any costs fall to consortium</li> </ul>
Construction Overrun	<ul style="list-style-type: none"> <li>• Can be managed through penalty clauses and seek to mitigate against loss of income claims for delay.</li> <li>• Reputational risk will need to be managed by communication from Council</li> </ul>	<ul style="list-style-type: none"> <li>• Managed by Consortium and any costs fall to consortium</li> <li>• Reputational risk will need to be managed by communication from Council and Operator</li> </ul>
Revenue Risk	<ul style="list-style-type: none"> <li>• Transferred to Operator</li> </ul>	<ul style="list-style-type: none"> <li>• Transferred to Consortium</li> </ul>
Commercial Return	<ul style="list-style-type: none"> <li>• May not maximise innovation or commercial return on investment.</li> <li>• Will need to seek early engagement of operator</li> </ul>	<ul style="list-style-type: none"> <li>• Bids will present optimum solution for commercial return and innovation</li> </ul>
Planning	<ul style="list-style-type: none"> <li>• Council risk and Council submits planning</li> </ul>	<ul style="list-style-type: none"> <li>• Council risk until planning approved but Consortium submits planning</li> </ul>
Market Appetite	<ul style="list-style-type: none"> <li>• Seek to make project attractive through presenting opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Early market engagement to ensure commitment from DBOM bidders</li> </ul>
Quality & Life Span	<ul style="list-style-type: none"> <li>• Build into Design &amp; Build specification and also build into operator contract for investment and refurbishment</li> </ul>	<ul style="list-style-type: none"> <li>• Build in life expectancy at end of contract for the Consortium across different aspects of the building</li> </ul>

4.33 Research and professional advice from our advisors has demonstrated that both options are currently being delivered by private sector partners. However, there may be different number of bidders for each option, with probably fewer offering the DBOM model.

4.34 Based on the modelling to date, need for significant investment in our Leisure Stock and the Council's desire for an operator to take or share the risk of capital costs and usage, the DBOM delivery model is recommended as the Council's most suitable option and should form the preferred delivery model for discussion with the market through soft market testing. If the market testing does not indicate enough bidders for a competitive process the Council reserve position is a separate design and build contract and leisure management contract. If this was the option, there would be higher

procurement costs to negotiate two separate contracts. For this reason it is recommended to Executive that the Council undertake a period of soft market testing to seek ideas and to establish the likely interest in the Harborough tender. This would then provide valuable context on which of the above delivery options is most suitable. The modelling in this report is presented for the DBOM option.

#### **4.35 Other Areas**

4.36 The modelling within the RPT consultancy report (Appendix A) assumes a £1 million investment in refurbishment of Lutterworth Sports Centre and operation on the current site for 25 years. It should be noted that the freehold of the Lutterworth Leisure Centre site is owned by Leicestershire County Council (LCC). The District Council has a 99 year lease from LCC from 23 April 2003, expiring 22 April 2102, with c. 85 years unexpired. Depending on the Local Plan and potential SDA areas there may be opportunities for a new build leisure centre within the next 25 years. The Council will need to evaluate options of how this is included within the contractual framework to provide maximum flexibility and value for money in the future, as well as the long leasehold nature of ownership.

4.37 The Bowls Hall, based at Market Harborough Leisure Centre has only 6% utilisation. It is estimated that based on this usage the bowls hall is being subsidised by other users of the Leisure Centre to the region of £33K per annum. In addition, the floor space occupied and future potential capital and revenue maintenance costs mean this is a disproportionate part and cost of the Leisure Offer at Market Harborough. There are three principle options which the Council could consider for the future of the Bowls Hall, including:

- Retaining the Bowls Hall as part of the main facility mix and including it in any future management arrangements with a partner (as per the current position)
- Retaining the Bowls Hall but seeking to transfer the facility to the bowls club through a Community Asset Transfer or similar.
- Discontinue the facility as a Bowls Hall and either seek alternative use or demolish the building

#### **5. Financial Implications**

5.1 The provision of Leisure Centres within the District is important in promoting physical activity as indicated by the current turnover (£3 million) and number of visits (1.3m in 2016/17). The current cost of Leisure Centre provision to the Council is £135K subsidy paid to Harborough District Leisure Trust.

5.2 Initial modelling by RPT Consulting has concluded that a new build of Harborough Leisure Centre and refurbishment of Lutterworth Sports Centre offers the best financial position for the Council. This also has the benefit of providing a Leisure Centre with a potential life of between 40 to 50 years for

the District, whereas a refurbishment may lead in future to the need for a new build in the next 10 years. The modelling by RPT Consulting concentrates on 25 years from 2019. If the Council was to consider the whole life costing over a 40 to 50 year period of the various options the case for a new build is further strengthened.

- 5.3 The re-provision of Leisure Centres and securing a new operator from 2019 is a significant project with a series of risks. Key risks are detailed below:

Category	Risk	Mitigation
Affordability	Capital costs are significantly higher than budgeted for. Construction costs are forecast to increase by between 2.4% and 3.6% per annum over the next 4 years.	Procure a design and build contract either through a DBOM or through a single procurement where there is a fixed price for the build and construction risk is transferred to the bidder.
Lack of Competition	Lack of Competition does not deliver value for money	Soft Market Test before finalising procurement and delivery option chosen.
Future Usage of Leisure Centre	Visitor numbers at the Leisure Centre are too ambitious or are impacted upon by new competition	Procure a leisure centre delivery model that transfers this risk to the partner. Negotiate gain share if usage increases significantly.

However, until the procurement is concluded there is a risk that the capital and revenue costs used for modelling will change by the time the procurement concludes. The following key sensitivities have been assessed for Option D (new build, Market Harborough and refurbishment at Lutterworth)

Increase in Capital Costs	Each £1 million costs £54K in borrowing costs
5% change in Income from usage	Each 5% change in Income costs/generates £151K change in income forecasts.

It is currently anticipated that the capital costs will be funded from prudential borrowing. There may be opportunities to 'loan' additional funds to a private sector partner to deliver leisure offerings outside the core offer. This would generate a net return on the borrowing that could support the overall affordability of the scheme.

- 5.4 Indicative Capital costs have been included in this report. Actual costs will be established through the procurement process alongside financing options. The approved Capital Programme (February 2017) highlighted the potential need for future investment but did not approve a specific capital budget or its financing. Council approval will be required for this borrowing – a more detailed investment case will be brought to Council for consideration and

approval at the appropriate stage of the procurement. At this stage, Executive is indicating their intent to recommend to Council in the future capital investment of £15.1 million, informing the soft market testing and market interest.

- 5.5 The Council will be managing the project in accordance with the Council's approved project methodology. The Project Sponsor is Beverley Jolly supported by an Officer Project Board. The Officer Project Board also includes the S151 Officer and the Head of Legal and Democratic Services. There will be a Member Project Board comprising of two Executive Members. Gateway Reviews will be undertaken by an opposition member. Embedded Assurance will be provided by Internal Audit.

The following external resources will be needed to support the Council in delivering this complex project

	<b>Estimated Costs</b>
	<b>£000s</b>
Specialist Leisure Support	22.5
External Legal Support	36.0
Specialist Finance and Taxation Support	10.0
Contingency (depending on procurement route)	30.0
<b>Total</b>	<b>98.5</b>

The costs will be firmed up in the next stage of the project. These costs will be funded from the £150K per annum provision for Major Projects included within the approved budget within 2017/18 and 2018/19. The Project Management and Quantity Surveying advice is included within the £15.1m Capital estimate.

- 5.6 The strongest business case financially and to deliver the Council corporate priority is Option D (New Build at Market Harborough and refurbishment at Lutterworth) delivered through a DBOM Contract. It is recommended that the Council should seek to develop a procurement approach based on a DBOM contract for Option D as set out above, which should include:
- (a) All facilities (HLC and LSC) should be included in any new contract.
  - (b) A new build solution for HLC is included based on the core facility mix and a number of options for additional commercial development (through variant bids).
  - (c) Outreach work and community programmes throughout the district should be an option within the contract.
  - (d) Technology solutions, linking health and sporting activity should be considered in the new contract, such as membership and booking apps promoting physical activity.
  - (e) Life cycle costs and maintenance responsibilities for the facilities should be transferred to the new partner.

The Council through soft market testing, financing options, and/or site identification should look to see whether there is opportunity to reduce the annual cost to the Council.

- 5.7 It is likely that the existing Leisure Centre at Market Harborough will continue to operate for a limited time post 2019 whilst a new build or refurbished leisure centre is built. The revenue costs of this are not known at this point and will be subject to a more detailed financial and risk assessment as the market testing and subsequent procurement progresses.

## **6.0 Legal Implications**

- 6.1 The procurement of a new Leisure Centre and Leisure Operator will be subject to European Procurement rules. The Council has appointed specialist external legal advisers, Sharpe Pritchard to provide legal advice on the procurement approach and the contractual arrangements. Other professional advice, for example financial and taxation advice will be sourced via this or other framework agreements.

- 6.2 This is a complex procurement with numerous opportunities, risks and dependencies that need to be fully assessed ahead of and throughout the procurement process. A series of questions will be asked through the soft market testing to provide relevant context and insight into current delivery options. Based on this and advice from our retained Leisure Consultant and Legal Advisors a fuller assessment of legal and procurement issues/choices will be undertaken.

## **7 Equality Analysis Implications/Outcomes**

- 7.1 This will be undertaken as part of the engagement process and continue as the project progresses.

## **8. Risk Management Implications**

- 8.1 The procurement of a new leisure centre and operator from 2019 is a major project with complex delivery issues, risks and dependencies. Key risks are detailed in paragraph 4.32. A full risk register for the project will be managed in accordance with the Council's Project Management methodology.

- 8.2 This project involves inherent risks for private sector operators in respect of capital build costs, operating costs and demand (usage) for Leisure Services over the period of the contract. It will be important for the Council to understand those risks that will be transferred to a partner and how this is priced into a future contract. The Council may choose to retain some of the risks as part of the procurement.



## 9 Consultation

9.1 During the summer and prior to the initiation of the procurement, the Council will engage with the public and other stakeholders through the following:

- Development of public engagement layouts and images for a new facility – identifying the facility mix and seeking to present the Council's ambition.
- Displays and sessions for public to comment on the proposals both online and at sessions in the Leisure Centres and other locations.
- Communication and survey to all clubs and stakeholders – potentially inviting them to focus groups to discuss their requirements.
- Targeted discussions with a number of clubs (such as Bowls Club) to discuss the future of facilities.

9.2 The Council will consult on the Draft Physical Activities Strategy (**Appendix B**) over the summer.

9.3 Soft Market Testing with Leisure Providers will be undertaken during the summer to determine the interest in the Council's preferred option of a DBOM and to ensure a competitive bidding process. This will also consider governance models and their direct/indirect relationship with the Council.

## 10. Options

10.1 Do Nothing: This retains the Leisure Centres as current and does not enhance or alter the facilities on offer. This requires £2 million condition survey investment and would result in a significant increase in operating deficit and as such this option is not recommended.

10.2 Minor Refurbishment. This makes some minor changes to increase usage, especially in relation to Health and Fitness. However, the Leisure Centres would remain largely time-expired and relatively in-efficient. The increase in turnover would not meet the anticipated capital refurbishment costs and as such this option is not recommended.

10.3 Major Refurbishment. This will enhance part of the Asset at Market Harborough but not the whole centre. The Capital Investment costs significantly outweigh the increase operating position from increased usage. As such, this option is not recommended.

10.4 New Build. This allows for a new build at Market Harborough to provide 21<sup>st</sup> Century Leisure facilities and would be more attractive to users. The ability to spread the capital costs over 25 years makes this the most economically advantageous option and delivers the highest level of activity and participation and is the option recommended.

11 Background Papers

11.1 Condition Surveys (Exempt)

11.2 Financial Models (Appendix A3 & A4 of the RPT Consulting Report) – Exempt. The financial models are available from the S151 Officer

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**Previous report(s): None**

**Information Issued Under Sensitive Issue Procedure: Yes - part**

**Ward Members Notified: N**

**Appendices:**

**A. Options Appraisal Report by RPT Consulting – Exempt**

A1 - Appendix A – Strategic Context – Exempt.

A2 - Appendix B – Local Sport Profile – Exempt.

A5 - Appendix E – Development and Construction Options – Exempt.

A6 - Appendix F – Management Options – Exempt.

*Note: Appendix A3 & A4 of the RPT Report contain detailed financial and activity models. These are an exempt background papers available to Members from the S151 Officer on request.*

**B. Draft Physical Activity Strategy**

**C. Extracts from the Financial Model - Exempt**