

Harborough District Council

Report to the Cabinet Meeting of 12th September 2022



Report Number:	5
Title:	Leisure Procurement Strategy
Status:	Public
Key Decision:	Cabinet Only - Yes
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Portfolio Holder:	Cllr Simon Whelband, Wellbeing, Communities & Housing Cllr James Hallam, Finance
Appendices:	Appendix A – Procurement Strategy

Executive Summary

- On 6 September 2021 Cabinet reviewed an outline business case to develop leisure facilities. Cabinet agreed to progress Option B - Major redevelopment of the existing sites to include additional facilities (such as studio space and health and fitness/ enhancement of the overall development to create a 'new' facility).
- Option B was the most affordable option and likely option to achieve at least a £zero cost to the Council whilst enabling significant investment in facilities. The MTFS identifies a £zero cost to the Council for the next leisure contract.
- Capital funding of up to £8.75million for Harborough Leisure Centre and £1million for Lutterworth Sports Centre has been set aside to support the redevelopment. The final capital funding amount is to be repaid by the incumbent operator over a 25-year period.
- The Council has commissioned The Sport, Leisure and Culture Consultancy (SLC) to support the procurement process. Work to date includes market engagement with 5 potential operators and the preparation of a shadow bid which confirms that Option B remains the most affordable option.
- There remain considerable uncertainties over the medium term for the state of the economy, public finances in general, and the market for leisure which is still recovering from the pandemic, the costs of construction, and the pressures on council finances. Results from the market engagement and the key issues to be considered in the procurement strategy were fed back to Members at an All-Member briefing in June.
- The Procurement Strategy has now been drafted which sets the high-level strategic objectives for the future delivery of leisure services and seeks to balance the Council's requirements and ensuring the opportunity is attractive to the market.
- Approval of the Procurement Strategy will enable documentation to be developed including a Service Specification before going out to initial tender at the end of 2022.
- Between November 2022- March 2023 a tender process will produce a long list of bidders.

- Between March 2023-July 2023 a short list of bidders will be determined.
- In July 2023 a Gateway review will take place following submission of Initial Tenders. The Initial Tenders will show the cost of continuing the current leisure provision and the cost of the provision with bidders utilising the investment fund. At this time, a decision will be made on which is the best option to proceed and the requirements for the Final Tender can be set.
- In October 2023 bidders will then produce their Final Tenders reflecting the Council's preferred option.
- In November 2023 Council approval will be sought for the preferred partner with a new contract commencing on 1 April 2024.

Recommendations

- **To approve the Leisure Procurement Strategy which sets the strategic objectives for the future delivery of leisure services across the Harborough District.**

Reasons for Recommendations

Approval of the Procurement Strategy will ensure;

- A clear scope of services that are complementary and appeal to the operator market.
- The most appropriate contract term including any proposed extension periods to be built into the contract.
- A clear position regarding future investment plans for the portfolio.
- The most appropriate procurement route to ensure the process meets the Council's requirements, timeframes, and is appealing to the operator market.
- A clear risk profile between the operator and the Council for key areas of responsibility, such as maintenance and utilities.
- A clear position on the use of variant submissions to test different scenarios.
- A clear position on affordability, to inform the development of the Services Specification, and to ensure it aligns with the Council's Medium-Term Financial Strategy.
- An evaluation framework which establishes the right balance between quality and price and seeks to secure the best quality operator that the Council can afford.
- Investment in both sites will be a requirement.

1. Purpose of Report

- 1.1.** To seek approval of the Leisure Procurement Strategy.

2. Background

- 2.1.** On 6th September 2021, Cabinet considered a report on the Review of Leisure Provision. It resolved to proceed with redevelopment of the Leisure Service provision (Option B).
- 2.2.** To support the redevelopment, Council have agreed to make available to operators of up to £9.75 million which the annual capital repayments will be paid by the leisure operator over the life of their contract (up to 25 years).
- 2.3.** Cabinet reiterated that the cost to the Council of the new contract needs to be as low as possible. The MTFs identifies a £zero cost to the Council for the next leisure contract.
- 2.4.** Council commissioned The Sport, Leisure and Culture Consultancy (SLC) (in November 2021, through ESPO 664 Framework) to support the procurement process which is which is being led by an internal Leisure Project Team and Project Board. Cabinet are represented on the Board by Cllr Whelband and Cllr Hallam.

2.5. In order to commence a new contract on 1 April 2024 with all relevant due diligence, the Procurement Strategy needs to be approved at Cabinet in September 2022.

3. Details

3.1. Part of the process to award a new Leisure contract by 1 April 2024 is to develop a clear Procurement Strategy, which sets out the Council’s approach to the procurement process and establish a suitable balance between meeting the Council’s service requirements, return on investment and ensuring the opportunity is attractive to the market.

3.2. SLC’s Briefing Paper dated August 2022; Appendix A, sets out the Procurement Strategy.

3.3. The timetable for procurement is set out below in Table 1. This identifies key stages and governance milestones and their status.

3.4. In Stage 5, between November 2022- March 2023 the Invitation to Tender process will take place following completion of the procurement documents including the Leisure Contract.

3.5. The tender process involves qualification, an initial tender and final tender. It is expected that in the region of 4 bidders will submit initial tenders in July 2023.

3.6. It is key to note that there is a Gateway review in July 2023 by the Project Board, following submission of Initial Tenders. The Initial Tenders will include variants showing the cost of continuing the current leisure provision and the cost of the provision with bidders utilising the investment fund. At this time, a decision will be made on which is the best option to proceed and the requirements for the Final Tender can be set.

3.7. In October 2023 bidders will then produce their Final Tenders reflecting the Council’s preferred option.

3.8. In November 2023, Cabinet and Council approval will be sought for the preferred partner. The necessary work will then be initiated with the preferred partner from November to March, to enable a new contact to be on 1 April 2024.

Table 1. Procurement Timetable

	Date	Status
STAGE 1: PROJECT INCEPTION	DEC 2021	Complete
STAGE 2: MARKET ENGAGEMENT	JAN 2022 – APR 2022	Complete
Market engagement carried out with 5 national leisure operators	March/April 2022	Complete
All Member briefing on key messages from engagement	Jun 2022	Complete
STAGE 3: DEVELOPING THE PROCUREMENT STRATEGY	MAY 2022 – SEP 2022	
	Jun 2022	Complete

Confirmation that the new contract is affordable (at least £zero cost to the Council), subject to interest rates at tender stage in 2023	Jun 2022	Complete
Project Board Workshop to develop Procurement Strategy	Sep 2022	Complete
Procurement Strategy reviewed by Communities Scrutiny Panel		
STAGE 4: PROCUREMENT DOCUMENTATION/ SPECIFICATION	SEP 2022 – OCT 2022	
Procurement Strategy considered by Cabinet	Sep 2022	
STAGE 5: TENDER PROCESS AND EVALUATION	NOV 2022 – MAR 2023	
Initial tender evaluation (assume 4 bidders)	Jul 2023	
Gateway review by Project Board	July 2023	
Revised tender evaluation	Oct 2023	
Council approval of preferred partner	Nov 2023	
NEW CONTRACT COMMENCES	Apr 2024	

4. Implications of Decisions

4.1. Corporate Priorities

- 4.1.1. Promoting health & wellbeing and encouraging healthy life choices.
KA.02.04: Review the current leisure services provisions and service delivery options for the future, including preparations for any new contractual arrangements.

4.2. Financial

- 4.2.1. In September 2021 Cabinet agreed to proceed with the option of redevelopment and refurbishment of the existing sites at an estimated net capital cost of up to £9.75 million. This was included in the 2022/23 (to 2026/27) capital programme that was approved by Council in February 2022.
- 4.2.2. Cabinet has set the affordability threshold for the new contract at £zero management fee paid to the operator or better.
- 4.2.3. The capital will be repayable over the life of the contract, and the operator will be expected to cover these repayment costs. It is also anticipated that the Council could potentially receive a return on the investment, as well as covering the cost of the contract. Initial modelling as part of the development of the Procurement Strategy indicates that this is achievable because of the capital investment fund, which the operator can use to develop services and facilities and has the potential to generate a surplus subject to investment proposals and prevailing interest rates.
- 4.2.4. The new contract is expected to have a duration of 25 years; made-up of an initial 15-year term plus 2 extensions of 5-years. Although the risk is 15 years from the time the contract was awarded, if the:

- capital investment was to have an economic life of greater than 15 years, but the
- selected contractor chose not to extend beyond 15 years,

there is a risk that the Council Tax payer would have to meet the residual 10 years cost of capital if any subsequent contractor did not agree to meet the residual costs of capital.

4.3. Legal

4.3.1. 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

4.4. Policy

4.4.1. The Procurement Strategy sets out the Councils approach to the procurement.

4.5. Environmental Implications including contributions to achieving a net zero carbon Council by 2030

4.5.1. Transferring some or full responsibility for utilities to the operator as part of the procurement will encourage investment in energy saving technology and contribute towards addressing the climate change emergency. A new contract is the ideal time to include such investment to enable the operator to obtain maximum benefit and return on the investment, and the operator would be financially incentivised to do so. This has been the case in a number of recent procurements. This approach would also contribute to the Council's corporate commitment to achieving net zero carbon.

4.6. Risk Management

4.6.1. A full risk register for the project is being managed in accordance with the Council's Project Management framework. The key risks that are being managed include;

- Failure to achieve £zero cost for the new contract
- Impact of rising costs of utilities
- Maintenance liabilities for the facilities
- The final facility mix not meeting expectations of stakeholders
- Project team resources

4.7. Equalities Impact

4.7.1. A full equalities impact assessment will be completed as part of the procurement and will be built into the leisure provision we develop.

4.8. Data Protection

4.8.1. None arising directly from this report at this stage of the process.

5. Summary of Consultation and Outcome

5.1. High level engagement has taken place between December 2021 and January 2022 as part of the development of the Health and Wellbeing Strategy. 38% of respondents (169 residents) thought that sports and leisure facilities need improving to make Harborough a healthy, active place to live.

5.2. Engagement with Leisure users for both sites will be taking place to feed into the final service specification.

6. Alternative Options Considered

6.1. Do not develop a Procurement Strategy was considered. This was discounted as the Procurement Strategy will inform the more technical services specification through setting overarching objectives and principles.

7. Background papers

Leisure Project Review, Cabinet, 6 September 2021

Leisure Procurement, Cabinet 3 December 2018

Leisure Report, Cabinet 4 September 2017