

Cabinet Meeting**Agenda Item:**

Meeting Date	30 th May 2018
Report Title	Council Leisure Centres contract extension and facility improvements
Cabinet Member	Cllr Sarah Aldridge, Cabinet Member for Health and Wellbeing
SMT Lead	Mark Radford, Chief Executive
Head of Service	Martyn Cassell, Head of Commissioning and Customer Contact
Lead Officer	Mike Marsh, Leisure and Technical Services Manager
Recommendations	<p>To approve :</p> <ol style="list-style-type: none">1. A five and a half year extension of the current Leisure management contract with Swale Community Leisure starting the 1st October 2019 based on the agreed Heads of Terms variations and Swale Community Leisure financial offer (as set out in the restricted paper).2. That the £2million of Council capital funding already allocated in the budget is used for the Leisure Centre capital improvements as summarised in appendix I.3. The removal of subsidised car parking for users of the Leisure Centres from 1st October 2018.4. Delegated authority to the Head of Property in consultation with the Cabinet member for Finance and Performance to finalise negotiations and complete the transfer of the management of Central House to Swale Community Leisure, ending at the same time as recommendation 1.5. Delegated authority to the Head of Commissioning and Customer Contact to commission Serco to manage and complete the proposed capital works up to a sum of £2m of building improvements on behalf of the Council and using the existing Works Procurement Agreement.6. Revision of the current agreement between the Council and Serco Leisure Operating Limited to deliver all repairs & maintenance works for the leisure centre sites including the common parts/systems within Central House for the 5.5 year

	<p>contract extension starting the 1st October 2019.</p> <p>7. Delegated authority to the Head of Commissioning and Customer Contact and Head of Legal, in consultation with the Cabinet Member for Housing and Wellbeing and the Cabinet Member for Finance and Performance to complete and sign off the final contract extension documents and variations as detailed in the Heads of Terms (restricted paper).</p> <p>8. Delegated authority to the Head of Property in consultation with the Cabinet Member for Finance and Performance to issue new leases for the relevant property and land in line with the contract extension period.</p> <p>9. Work to continue on future leisure options and a report to come back by Spring 2019 with a detailed appraisal of options 5 & 6 'long term provision for Swale's leisure centres'.</p>
--	---

1. Purpose of Report and Executive Summary

- 1.1 To set out proposals for a 5.5 years extension of the current Leisure Centre Management contract between the Council and Swale Community Leisure. The extension would be supported by £2m of Council capital funds for improvements and repairs to the facilities, with the aim of generating increased visits from a wider range of residents and increased income to reduce the Council's subsidy for the Leisure Centres in Sittingbourne and Sheerness.
- 1.2 These investments now are not limited to the 5.5 year extension and will put the Council in a strong position for determining the long term options.
- 1.3 This report sets out the processes undertaken to review the service and arrive at this final report.

2. Background

- 2.1 Well provisioned leisure centres are an essential part of the Council's core community provision of providing facilities to residents. The centres:
 - Offer low cost universal access to swimming, sports facilities, children's soft play

- Support the promotion of active life styles by providing proven health benefits for both physical and mental well-being, including GP referrals, obesity, mobility and outreach work for healthy activities for young people
 - Act as a community hub for schools, sports clubs and societies
 - Are part of the destination offer to companies considering re- locating to Swale
 - Form part of the decision making for families moving to the borough
 - Enhance the tourism offer
- 2.2 Going forward there is a recognition that the leisure centres need to ensure they continue to provide the community benefits but at a lower operating cost. It is hoped that by investing in new facilities we will attract more users so widening the appeal as 'recreational leisure hubs' and generate more income to stabilise the Council's subsidy.

Contract arrangements

- 2.3 Swale Borough Council (SBC) has two separate arrangements with the local leisure trusts, Swale Community Leisure (SCL) and Faversham Swimming Pools Trust (FSPT), covering four discrete facilities. This report focuses on the arrangement with Swale Community Leisure.
- 2.4 The current fifteen year Leisure Centre management contract with SCL expires in September 2019. This has stimulated the need to review the Council's future requirements for leisure and the financial imperative to reduce the current subsidy.
- 2.5 The contract relates to the following leisure centre buildings owned by the Council;
- Swallows Leisure Centre, Sittingbourne, which consists of a leisure swimming pool and dry side sports facilities.
 - Sheppey Leisure Complex, Sheerness which comprises of;
 - Sheerness Swimming Pool,
 - The Healthy Living Centre. This operates under a shared arrangement with the dry-side sports facilities run by SCL. The remainder of the building is leased to Sheppey Matters (until 2027) who run health related services.
- 2.6 In 2016 there were 588,155 visits to SCL leisure facilities and 215,297 visits to Faversham pools. Users include gym and fitness members, local swimming and sports clubs, children's swimming lessons, GP referral schemes and schools.

These figures show they are well used facilities and important to the local community.

- 2.7 The current lease and management contract arrangement between the Council and SCL provides an efficient outsourcing structure, as verified by external financial advisors used by the Council. The contract arrangement allows the Trust to achieve rate relief and VAT exemption on certain fees and charges, providing a financial benefit to SBC in delivering lower operational costs. This arrangement provides the Trust with a management fee and other related payments including parking recharges and utility costs.
- 2.8 SCL then has an 'agency agreement' with a national leisure provider (Serco Leisure) who deliver the operational services and back office systems. This provides the advantage of a locally driven Trust with a nationally experienced leisure provider.
- 2.9 Under the lease agreements with SCL for the facilities, SBC retains landlord's responsibility for the maintenance of the buildings. A maintenance agreement directly between SBC and Serco Leisure transfers some of the on-going maintenance responsibility to Serco. Major structural items remain the responsibility of the Council e.g. roof, major plant, lifts etc. As part of this agreement Serco Leisure is paid a fee by SBC to deliver the Council's routine maintenance obligations which is also a tax efficient solution.

The Leisure Centre Review Process

- 2.10 To inform possible options, the Council worked with SCL, Serco and appointed external consultants to evaluate the future market potential and investment options for the Leisure Centres.
- 2.11 The resulting consultant's report set out a detailed evaluation of the performance of Swallows Leisure Centre and Sheppey Leisure complex matched against industry averages and concluded that the overall performance and operations of the centres were fit for purpose and in a number of areas placed the operation in the top national quartile.
- 2.12 At the same time the Council commissioned building condition surveys for each site. These surveys identified that whilst they were currently in sufficiently reasonable repair; investment of just over £2m was recommended to be needed over a five year period and upwards of £10 million over 25 years.
- 2.13 The leisure centre review then explored six options for the provision of Leisure Centres beyond the current contract ending in 2019, to address the complex and

pressing issues as set out below. These issues have made the review harder and impacted on the Council's ability to define a 'one size fits all', long term solution to a future viable model for leisure provision:

- Ageing leisure centre buildings
- Changing local government funding forcing a drive for reducing the Council's current major contract costs
- Potential future redevelopment options of the leisure centre sites as part of the wider town centre regeneration plans in Sittingbourne and Sheerness.
- Swale health inequalities & an increasing population seeking quality facilities as part of the offer of working and living in an area which is regenerating itself.

2.14 The six options discussed internally were:

- 1) Cease operation of Council owned leisure centres: Swallows, Sheppey swimming pool and Sheppey Healthy Living Centre (SCL part).
- 2) Offer a competitive Asset Transfer opportunity to external organisations.
- 3) Short term extension of the existing contract with SCL of 3.5 - 5.5 years, with no capital investment.
- 4) Short term extension of the existing contract with SCL of 5.5 years, with capital investment of £2M funded by the Council.
- 5) Mid to long term major refurbishment with major capital investment of a range from £6.8m to £8.9m at Swallows and £2m to £2.5m at Sheppey Leisure Complex
- 6) Long term: new build leisure facilities: major capital investment of £12m to £17.9m

Options Summary

2.15 Option 1 proposes closing key, well-used community facilities and so cannot be justified. Furthermore there would be a cost incurred in closing these facilities such as securing the sites whilst other regeneration plans take shape or demolition.

2.16 Option 2 - on the basis that the Council wishes to fully explore the future development options of the leisure sites for wider regeneration purposes, which may take 2-3 years to conclude, it will be difficult to justify transferring the assets to an organisation to deliver at no cost to the Council, as there are unlikely to be any experienced organisations that would take on the assets for the short term opportunity particularly without the required capital investment.

- 2.17 Furthermore, the uncertainty of the sites' future availability does not support substantially investing in the buildings (option 5 or 6) in the short term, which is required to help achieve the ultimate aim of reducing the cost of the service as close to zero as possible.
- 2.18 Therefore there needs to be a short-term strategy solution for operation of the sites for the next 3 - 5.5 years as shown in option 3 or 4. The response from the Leisure Trust was that option 3 would not present a viable business proposition for them as the lack of capital investment in new 'income generating' facilities in the centres would likely lead to:
- a minimum 10% decrease in income;
 - therefore a requirement to increase the Council's annual subsidy to SCL;
 - a contract extension that would be limited to only 3.5 years, due to the uncertainty over the risks associated for an additional 2 years both in potential failure of major plant/equipment and in trying to predict usage/loss of income, linked to customers' response to lack of investment.
- 2.19 The preferred solution is the short-term option 4, to extend the existing leisure centres management contract for 5.5 years, allowing time for the Council to fully explore a long term solution for leisure provision in the Borough that could see newer facilities and reduced costs of the service.
- 2.20 SCL was tasked to produce a fully costed proposal based on the report and given the brief of a negotiated contract extension, linked to short term capital investment which generates increased income, in order to service the costs of capital borrowing and present quantifiable reductions in the Council's annual subsidy. Their proposal was assessed and assisted in shaping option 4 below.
- 2.21 Whilst we needed to focus on the short term options, it is recommended that the Council should also give due consideration of the longer-term options of 5 and 6, as these will need to be explored at an early stage alongside the wider regeneration agenda. Some of this work has already been completed as part of the review but was not possible to move forward due to the other regeneration project considerations. It will be critical that work starts immediately as 5.5 years is a relatively short time for major project options.

3. Proposal: The SCL offer

- 3.1 Option 4 is based on the SCL proposal (supported by Serco) and if agreed by Cabinet, will be for a 5.5 year contract extension with the Council providing £2m of capital funding to invest in new 'income generating facilities and improvements'

(£1.55m including an assumption on interest) and £450,000 for leisure centre repairs and renewals as detailed in the building condition surveys.

- 3.2 The proposal will also deliver increased income leading to a reduction in the Council's subsidy paid to SCL over the 5.5 year term when compared to the existing agreement and forms part of the confidential commercial offer as set out in the restricted report.

Facility Improvements

- 3.3 Appendix I shows the proposed plans in more detail. The key aims were to improve on the existing activity offer at the centres to maintain the current user base and attract a wider range of residents from groups that do not currently use the centres. These plans are indicative and open to amendment. They will form part of the public consultations moving forwards should this report be approved.
- 3.4 The proposed improvements at Swallows Leisure Centre will provide a new family fun zone with enhanced soft play, clip and climb/Augmented Climbing Wall located in the old Wyvern Hall and an expanded gym with an additional 10 new exercise stations, which will be created by a new mezzanine floor over the café. A separate virtual spin studio with a healthy lifestyle toning suite for mobility/post operation managed exercises will also be provided.
- 3.5 The Sheppey Pool proposals include removing the current soft play area and introduction of a healthy lifestyle toning suite. Changes at Sheppey Healthy Living Centre include replacement of the underused squash court with a virtual spinning studio and an extended gym into the existing spin area, equipment upgrades and approximately 12 new stations.
- 3.6 One of the key elements in the condition surveys was the required works to Swallows roof and air circulation. Fairly major repairs are required to ensure the roof is fit for purpose for the next 5.5 years as a minimum. It is proposed to undertake these works at the same time as the new facility additions in order to minimise disruption.
- 3.7 The Council appointed specialist leisure consultants, Max Associates, to undertake an analysis of the SCL financial proposal and facilities mix including the profit and loss projections over the 5.5 contract term and have concluded:

“The proposed facility mix at each centre makes sense and will maximise usage in the short to medium term as well as improve revenue and assist in contributing to wider council objectives. They will have a positive social and community impact on the residents of Swale and assist in future proofing the facilities.

The financial proposal from SCL includes four elements;

- *Financial impact of investment*
- *Savings on the current surplus achieved by SCL*
- *Ceasing car park refunds to customers*
- *Changes to the contract position:*
 - *utility risk; and*
 - *management of maintenance.*

We would also suggest that some of the income and expenditure projections within the investment projects are not as favourable as expected and if these were improved, the level of capital investment would become more viable and provide increased benefits for SBC.”

- 3.8 The latter point has been fully discussed with SCL and Serco who have advised the Council that they have been conservative in their projected income projections in order to build in a tolerance for any unexpected competition in the market. They have also built in additional staff costs specifically to address where there are unknowns associated with managing the proposed new facilities such as the Swallows Family Adventure Zone and the healthy toning suite which will be needed to attract new audiences to the centres. To address a position where the actual income exceeds projected income, the Heads of Terms (HoTs) negotiations summarised below have produced a solution.

Contract changes Heads of Terms (HoTs)

- 3.9 Detailed negotiations have taken between the Council, SCL and Serco to map out heads of terms (HoTs) for both the operational and financial elements for the contract extension, and are summarised below with full details in the restricted section of the report (appendix II) due to their commercial sensitivity.
- 3.10 The HoTs form the proposed contract variations which, following Cabinet approval, will be embedded in the suite of legal agreements and address issues in the existing contract that have become a financial burden over time, are operationally ineffective or legally restrictive for all parties involved.
- 3.11 A change to the way utility costs are calculated will ensure that subsidy by the Council will be based on true usage amounts as opposed to the fixed cost that SBC currently pays. Whilst this is a positive it should be noted that this means the parties will share the risk on tariff prices increases.
- 3.12 It is recommended that Cabinet approves the removal of parking refunds for users of the leisure centres. The original 2004 contract sets out an obligation for

both the Council and SCL to fund the parking subsidy each year and is inconsistent with the offer at Faversham Swimming Pool where users are not refunded their car parking fee. Both sites are in close proximity to the High Streets and therefore public transport. Furthermore a large proportion of users are within a walking catchment of the centres.

- 3.13 The most cost-effective route for the proposed capital investment works is for the Council to provide the funds and commission Serco to project manage the project. This can be done using the existing Works Procurement Agreement in the current contract. Serco will manage the works over a timetable agreed with SBC and this enables us to reduce the impact of these major improvements to existing users.
- 3.14 The contract will also be amended so that Serco undertake all maintenance and repairs to the centres as opposed to the current split role played by Serco and the Council property team. This will reduce the time involved in making repairs which will benefit users and also mean an increase in planned preventative maintenance, reducing the likelihood of future major issues.
- 3.15 A new profit share arrangement is proposed so that the Council, SCL and Serco can benefit from any operating surpluses, which is not the case for SBC in the current contract arrangements. This makes it in all party's interest to operate the centres efficiently and means any risks of increasing costs can be covered by surpluses. Furthermore a 'facility improvement fund' will be built up over the contract extension term to support future developments.
- 3.16 Discussions have also been held to transfer the management of Central House from the Council to SCL who will become the Landlord. This will simplify the day to day management of the tenants and building maintenance, as much of the plant and systems are co-joined with Swallows Leisure Centre and operated by Serco staff. The proposal is cost neutral. The transfer will be from the 1st October 2018 as part of revisions to the current contract and then co-terminus with the 5.5 year contract extension.
- 3.17 It is proposed to enter into a new lease with SCL to run until the end of the extended contract on 31st March 2025. The new lease will include all parts of Central House and will replace the existing lease which ends on 30th September 2019.

4. Alternative Options

- 4.1 The six options that were considered are shown in 2.14 and analysis of the options is detailed in paragraphs 2.15 to 2.21.

5. Consultation Undertaken or Proposed

- 5.1 The Leisure review has been on-going since February 2016 and has included input from a range of external consultants including buildings condition, legal and financial experts.
- 5.2 The Cabinet Member for Housing and Wellbeing has been regularly briefed on the work being undertaken.
- 5.3 Our existing contractors SCL and Serco have been involved in developing plans but we have also spoken informally to other Leisure Providers to help understand the current leisure market.
- 5.4 If Cabinet approve the report, SCL will display the proposed plans and graphics for the new facilities in both leisure centres and inform the sports and activity clubs and leisure members of the outline timetable for the works.

6. Implications

Issue	Implications
Corporate Plan	<p>Priority Theme One: A Borough To Be Proud of</p> <p>A borough which is noticeably clean and well maintained, in which the natural and built environments are respected, conserved, and enhanced for future generations. Facilities for residents and visitors alike.</p> <p>Priority Theme Two: A Community to be Proud of</p> <p>A community in which everyone plays their part in maintaining their own physical and mental wellbeing through healthy lifestyle choices.</p>
Financial, Resource and Property	<p>The full financial details of the proposals are found in the restricted report due to their exemption under commercial sensitivity.</p> <p>The Chief Finance Officer will advise on the funding of the proposed capital spend up to £2m, in order to ensure that we maximise the scope for internal borrowing and minimise external borrowing and the interest costs which then become payable.</p> <p>SBC made an investment in minor structural amendments to the buildings and the provision of new equipment in 2009, through a capital loan facility from Serco called PAISA. This has been repaid annually at a cost of £223,980. A final re-payment of £79,404 will be made in 2019/20 financial year but will offer a saving against current contract costs moving forwards.</p>

	Removal of the parking refund subsidy will save SBC circa £70k per annum if agreed.
Legal, Procurement and Statutory	<p>The provision of leisure facilities is not a statutory function but the service helps to contribute to other statutory functions such as health and well-being.</p> <p>The Council's external legal advisors have reviewed the draft Heads of Terms and contract variations, commenting that the contract variations will comply with the EU procurement rules for the proposed contract extension and that the proposals do not represent a major modification.</p> <p>If Cabinet approve this report on the 30th May, the Council will issue a 'Voluntary Transparency Notice' (VTN), published in the OJEU for a 30 day period, setting out the full justification of the proposed contract extension. This is a risk mitigation strategy to strengthen the Council's position should there be any potential challenges from other Leisure Trusts/Operators.</p> <p>Mid Kent Legal will act as advisors to SBC providing oversight of the legal processes but have advised that they do not currently have the resource for the deed of variation works. Funding has therefore been allocated for commissioning external legal support.</p>
Crime and Disorder	Leisure Centres and the assets within them are increasingly susceptible to vandalism adding to the annual maintenance costs. Improving the quality and encouraging community ownership of these facilities through activities to promote engagement will help to reduce this.
Environmental Sustainability	The proposed improvements in managing utilities costs will also assist in environmental impacts through the encouragement for all parties to invest in energy saving methods.
Health and Wellbeing	The provision of leisure centres provides proven health benefits for both physical and mental well-being. There are a wide array of community and sports groups accessing the facilities with GP referrals for managed exercise sessions in the gym and the proposed body toning suite.
Risk Management and Health and Safety	The Council is required to meet its obligations on Health and Safety. Insurance claims relating to falls and pool side incidents or accidents relating to faulty equipment would be at risk of increasing if we reduced equipment maintenance or left sites to decline in quality.
Equality and Diversity	The proposed investment aims to widen the choice of leisure facilities for all residents in the Borough. Improving the variety and quality of the leisure offer will allow more people to use them.
Privacy and Data Protection	SCL will need to ensure continuing data protection compliance with leisure membership and club data

7. Appendices

7.1 The following documents are to be published with this report and form part of the report.

Appendix I – Full details of SCL improvement proposal

Appendix II – Restricted paper

8. Background Papers

n/a