

CABINET

Salt Ayre Sports Centre Development Project 19 January 2016

Report of Chief Officer (Health & Housing)

PURPOSE OF REPORT			
To seek support from Cabinet for the redevelopment of Salt Ayre Sports Centre, in partnership with a development partner, and to include it in their budget proposals.			
Key Decision	X	Non-Key Decision	Referral from Cabinet Member
Date of notice of forthcoming key decision	18 December 2015		
This report is public.			

RECOMMENDATIONS OF COUNCILLOR DARREN CLIFFORD

- (1) That Cabinet supports the redevelopment of Salt Ayre with the development partner Alliance Leisure Services Limited, and includes it in its budget proposals for referral onto Budget Council.
- (2) Subject to approval being granted at Budget Council, it be noted that officers will use existing delegated authority to award the contract to Alliance Leisure Services Limited and implement the development plan accordingly. In addition, any subsequent contractual decisions, not covered by delegated authority, will be brought back to Cabinet for approval.
- (3) That it be noted that progress on the development be covered through normal quarterly performance and financial monitoring arrangements and regular updates are provided to the Cabinet Portfolio holder.

1.0 Introduction

- 1.1 In January 2015, Cabinet agreed to approve in principle to seeking a development partner to invest and improve facilities at Salt Ayre Sports Centre (SASC) recognising that this would give the council the opportunity to assess how a partner could improve the facilities, enable a more secure financial operation and prepare the council for a more sustainable model of sport and leisure provision for the future. It was also agreed that the outcome of this piece of work be reported back to Cabinet with more detailed proposals, associated financial implications and to seek authority to proceed prior to entering in to any contractual arrangement (minute 74 refers).

- 1.2 A development partner works with the council to provide expertise, capacity, project management (including all construction aspects), marketing and finance if required but the council still retains full control of the policy issues and operational management of the sports centre.

2.0 Proposal Details

- 2.1 A comprehensive procurement exercise has taken place involving a cross service panel of officers. Having initially received interest from six companies, the number was reduced to two following the pre-qualification stage. The companies were then invited to tender on a 70% quality / 30% price basis with primary aims of the project listed as:

- To encourage partnerships which deliver increased participation, enable the promotion of broader social and health outcomes and achieve financially sustainable leisure provision.
- To improve the public's health and wellbeing, and reduce health inequalities.
- Reduce operating costs to the council.
- To enhance the customer engagement with SASC services in line with the council's business and digital agendas.
- To provide computer systems for the day to day running of the leisure services and produce accurate reporting for management and marketing purposes.

- 2.2 A wide range of financial, economic and technical considerations have been taken into account during the selection process. These included:

- Consideration of Business Impact.
- Main Contractor Procurement and Staffing Resources.
- Innovation.
- Meeting the councils Priorities.
- Financial Information and Proposals.

- 2.3 The award criteria was based on value for money issues and the applicant's technical submissions with more emphasis placed on quality over price. Finally, the assessment included an evaluation of the written proposals, quality of presentation, performance at interview and overall consistency of responses.

2.4 Evaluation Results

The results of the scoring exercise undertaken by the evaluation panel are as follows:

			Tender 1		Tender 2	
		Weighting	Average Mark out of 10	Weighted Scored	Average Mark out of 10	Weighted Scored
1	Consideration of Business Impact	30%	8.3	24.9	7.9	23.6
2	Main Contractor Procurement and Staffing Resources including CV's	10%	8.4	8.4	8.0	8.0
3	Innovation	30%	8.5	25.5	8.4	25.1
4	Meeting the Council Priorities	30%	9.0	27.0	8.0	24.0
Weighted Totals				85.8		80.6
Normalised to 70%				60.1		56.5
5	Financial Information & Proposals	100%	8	8	8	8
Normalised to 30%				24		24
Total Scores				84.10		80.50

2.5 The panel felt that overall the standard of submissions was high and fully met expectations and in the opinion of the panel either company would make a credible development partner. Both companies demonstrated that they could fulfil the requirements of the council's ambition in relation to transforming the sport and leisure offer, delivering first class improved facilities which will improve footfall to the sports centre and there was supporting evidence from both of the potential additional income generated This has made the decision challenging and the result very close. However, the submission from Alliance Leisure was determined as being stronger in relation to the published evaluation criteria.

2.6 Summary of Proposed Changes to Facilities

The successful tenderer proposes the following introduction of new or replacement facilities. These would be implemented in phases over a period of up to 5 years but with substantial changes occurring in years 2 and 3. *(Photographs for illustrative purposes).*

Outdoor Facilities - Cease operating the outdoor artificial turf pitch and replace with a new high ropes thrill tower. Provide new (design to be agreed) BMX track. Provide new fitness training facilities.



Reception Refurbishment - To provide for remodelling of the building entrance and refurbishment of the reception area including for fast access turnstile system.



Booking System - To provide new / replacement of computerised booking system including facility to book online. Improvement of direct debit systems

Café - Complete refurbishment of cafeteria area including provision of specific birthday party facilities for children



Adventure Play and VertGo - Provision of three storey adventure play area within half the sports hall. Further provision of a clip and climb facility (VertGo) which is suitable for young people and adults.



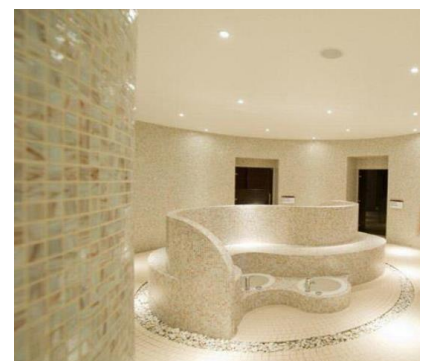
Sports Hall - Half the sports hall remains for sporting use e.g. five a side football, badminton.

Projectile Hall - This facility is transformed to a multi-functional training room, complementing the new fitness suite.



Fitness Suite - Expansion of existing fitness suite to allow for circa 100 fitness stations and a dedicated 'spinning studio'.

Existing Sauna and Steam Suites - Replaced by extension of fitness suite.



Spa facility - New build which would provide spa facilities, health and beauty treatment areas and toning tables.

Community Facilities – It is envisaged that within the spa complex, there would be additional community meeting rooms and areas for clubs and groups to make use of.



Rehabilitation - Also within the spa building complex would be further provision for rehabilitation classes thus improving the options for the current partnership agreement with the University of Cumbria.

General - All changing rooms and toilets would be refurbished and numerous improvements made to building finishes

Asset Management

The project allows for a building condition survey to be undertaken with provision for equipment replacement / renewals and building maintenance included for. This will be the first time SASC has had such a plan.

Council Priority: Health and Wellbeing

The project meets requirements within the Corporate Plan relating to Health and Wellbeing, in particular the extract 'The council will continue to work with partners as part of the health and wellbeing partnership to improve the health outcomes for our citizens. The council intends to take action to improve health; for example, by enabling access to sports and leisure activities ...'. The project similarly delivers against the outcome 'Health and wellbeing of our citizens is improved' and success measures of:

- Increased number of people participating in sports and leisure activities.
- Maximise opportunities for access to innovative leisure activities by working collaboratively with public and private sector partners.

3.0 Financial Implications

3.1 Should Members approve the appointment of a Development Partner and the proposed budgetary implications are approved by Budget Council, it is envisaged that the project will commence early in the new financial year (2016/17). During this implementation year there will be a number of major building works to various aspects of the current facility with some closure periods required to enable work to progress.

3.2 The overall indicative cost of the proposed changes is approximately £5M. This covers the design and build, equipment, fees and contingencies. It

should be noted that this may change once the exact design of each phase is agreed with the development partner. However, this will be a maximum cost for budget approval purposes.

3.3 Financing the cost of the new capital works will be incorporated into the update of the Medium Term Financial Strategy (MTFS) for consideration at Budget Council, and would subsequently be determined by the Section 151 Officer in accordance with that MTFS under her delegated powers. For the purposes of costing the net revenue savings, it has been assumed the scheme will be funded via unsupported borrowing with the relevant annual borrowing cost being charged to revenue. However, the final decision will need to satisfy the Prudential Code requirements in terms of prudence, affordability and value for money.

3.4 A summary of the net revenue impact of the proposed developments are shown in the following table, together with relevant financing costs and renewals requirements, which are then compared to the current estimated operating costs.

	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's
Development Partner				
Expenditure	2,939	3,121	3,314	3,372
Income	(1,167)	(2,149)	(2,448)	(2,522)
Renewals	0	77	77	77
Financing Costs	7	249	352	352
Net Operating Cost	1,779	1,298	1,295	1,279
Continue Current Operation				
Expenditure	2,761	2,812	2,864	2,919
Income	(1,092)	(1,114)	(1,119)	(1,140)
Net Operating Cost	1,669	1,698	1,745	1,779
INDICATIVE NET COST/(SAVING)	110	(400)	(450)	(500)

3.5 The overall payback period for the £5M investment is estimated to be 12 years.

3.6 The assumptions made in producing the estimates are as follows:

- The income projections are based on the development partners' experience of operating similar operations throughout the country, together with officers' local experience.
- Expenditure estimates are based on current forecasts updated for the

new staffing and operating costs of the new developments.

- Renewals have been included to ensure the standard of equipment is regularly maintained and renewed, which is essential if income projections are to be achieved.
- Finally, as mentioned in section 3.3 above, the financing costs are based on unsupported borrowing and represent the charge to revenue together with the loss in investment interest associated with using £5M of internal financing. The cost could be reduced if the Invest to Save Reserve were to be applied or alternatively the development partner can provide financing. As there are other invest to save proposals still to be considered as part of the budget process, the final financing decision will be determined at a later date based upon the most prudent option.

3.7 Whilst the intention is to implement the project in distinct phases in order to minimise the impact on the business, there remains the related loss of income associated with the closures. Officers have worked on a worst case scenario and therefore allowed for a period of up to seven months before the new facilities begin to make a positive return. This period allows for the associated pre sales opportunities and a comprehensive marketing and promotional campaign. In addition, it may be necessary to back fill certain key posts during the implementation phase, which has also been factored in. Overall, it is estimated there will be an initial cost of £110K in 2016/17, as shown above.

3.8 It should be noted that the intention is for the project to minimise service disruption and wherever possible continuum of service will be achieved. The phases of building work will be confirmed post contract award, however, it is envisaged that works could commence on the outdoor facilities as soon as possible. Should Members approve the recommendations, a project executive team made up of council officers and the Development Partner will meet at the earliest opportunity in order to agree build phases and associated interruption to service delivery. A further project implementation team will similarly work closely with the partner protecting council interests and maximising the potential benefits of the project.

4.0 Options

There are essentially two options to consider:

4.1 **Option 1 - Do not appoint a development partner but continue to invest in line with current budgets with replacement and repair as necessary but with no major improvements**

This would be continuing as we are now, replacing and repairing where necessary to maintain minimum health and safety legislative requirements and to provide the facilities to a level to meet the minimum customer expectation.

However, just to maintain current health and safety standards is likely to require additional expenditure in the region of £400K which has been identified as necessary in a recently updated building condition survey. It

should be noted that no provision for this cost has been included in the table under section 3.3 as investment needs for the project will be different to that of continuing with the current operation.

Only investing in essential planned capital improvements or repairs as opposed to any wider refurbishment would lead to a general decline in the quality of the facilities on offer and it is likely that gym memberships will decline further over the next few years and there would be a continued reduction in sports hall occupancy and sauna use. To compete with other providers in the district, we need to be able to offer high quality, “private sector feel” facilities.

There would be a further knock on detrimental effect on performance in remaining areas such as the swimming pool and café.

This option would require increased subsidy over the next few years and there will become a point where a decision about whether to continue to keep SASC open will need to be made.

In terms of the revised budget position, the estimated cost of operating Salt Ayre in 2015/16 is £1.625M (£938K excluding notional capital charges). This assumes customer numbers remain static, therefore any drop in numbers would increase this cost further.

4.2 Option 2 – Appoint Alliance Leisure as the development partner and confirm Cabinet’s commitment to including the necessary funding to deliver the project in its draft budget proposals for 2016/17 and beyond.

The appointment of Alliance Leisure as the council’s development partner to deliver the planned improvements is supported by a robust business case which shows a reduction in subsidy whilst greatly improving the sport, leisure and visitor attraction offer. The financial appraisal has been extremely thorough and officers have scrutinised Alliance Leisure’s finance projections and undertaken our own financial projections.

Although projects as significant as this cannot be risk free, officers have been conservative in projecting costs and income so as to minimise the risk to the council. Officers have visited several councils and trusts where similar developments have taken place and made extensive enquiries about the robustness of income targets and costs. Alliance Leisure have an excellent track record of working with clients, project managing capital works, delivering high specification facilities and keeping within budget and delivering on time.

5.0 Details of Consultation

5.1 None at present, there would be consultation with customers and potential customers prior to any projects starting.

6.0 Options and Options Analysis (including risk assessment)

	Option 1: Continue to invest in line with current budgets with replacement and repair as necessary but with no major	Option 2: Appoint Alliance Leisure as the development partner and confirm Cabinet’s commitment to including the
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	improvements.	necessary funding to deliver the project in its draft budget proposals for 2016/17 and beyond
Advantages	None	<p>Provide a more secure future for the continuation of Salt Ayre by reducing the ongoing net operating cost.</p> <p>Provides a planned programme of works over a period of years as summarised in 2.6.</p> <p>Provides facilities which meet current customer expectations as well as all H&S standards.</p> <p>Would position SASC as a premier sport and leisure facility in the North West providing a diverse range of activities on one site whilst retaining a community hub for continuation of active health and other targeted health programmes for more vulnerable citizens.</p> <p>Position the council well for delivery of public health commissioned activities that cut across a range of council delivered services such as leisure, housing and environmental health.</p> <p>Is a good example of the municipal entrepreneurialism theme of the ensuring council ethos enabling the council to translate its policy objectives into practice.</p>
Disadvantages	<p>Opportunity to reduce operating subsidy as well as refurbishing an outdated facility are missed.</p> <p>Ultimately the financial viability of the centre would need to be reconsidered.</p>	<p>Upfront investment is required to facilitate these improvements.</p> <p>Officer capacity to oversee the programme is required.</p>
Risks	Operating costs increase to such a point that the facility becomes no longer viable to subsidise in the context of	Failure to secure a suitable development partner and establish a successful working relationship – this risk is

	<p>reducing resources. This could lead to decisions about closure.</p> <p>Lack of investment in new facilities will increase the repair costs and potentially lead to unforeseen costs due to meeting health and safety standards.</p> <p>Increasingly poor equipment and buildings could lead to unsafe conditions and risk of injury to staff and public.</p>	<p>mitigated by the fact that our soft market testing has shown there are a few experienced companies with a track record of success. In addition, the procurement process has determined the most suitable partner.</p> <p>Income projections do not materialise and savings targets are not achieved. This is mitigated by the fact that a robust procurement exercise has been carried out to select a development partner who has suitable experience and expertise. In addition, income projections have been robustly assessed by officers.</p> <p>The investment required is substantial and a return on this isn't generated until year 2 onwards.</p> <p>Officer capacity to oversee the programme may be insufficient – this risk is mitigated by the fact that the sport and leisure restructure built in some capacity to progress projects such as this as well as day to day management. In addition, the council adopts a cross service project team approach to large scale projects such as this similar to the solar PV project. Costs for additional capacity required have been included in the project costs.</p>
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7.0 Officer Preferred Option (and comments)

- 7.1 Option 2 is the officer preferred option. Subject to Budget Council approving the financial proposals, the appointment of a development partner, and delivery of the improvements will give the council the opportunity to significantly reduce operating costs (see financial implications). In addition, it will provide a building asset management plan for the future and generate considerably more use of the facility thus increasing people's participation in leading healthy lifestyles. Improving the offer will further enhance the district as a place to live and visit whilst remaining entirely well placed to deliver on our health and wellbeing objectives particularly still providing for our more vulnerable citizens. The council will retain responsibility for programming of the facilities and setting the associated pricing policy. The existing 'Go Card'

scheme offering reduced rates to local residents in receipt of various benefits will continue.

8.0 Conclusion

- 8.1 There is a clear requirement to address the medium and long term future of SASC. This report recommends the award of contract for the provision of sport and leisure development partner to Alliance Leisure as the most economically advantageous tender submitted.
- 8.2 The financial return to the council that this project provides at a time when identifying savings and protecting services is of paramount importance would seem a prudent and sensible way forward. Taking this route does not preclude any future option of considering transferring to a Not for Profit Distributing Organisation (NPDO or Trust).

RELATIONSHIP TO POLICY FRAMEWORK

This report supports the council's ensuring council ethos, particularly relating to municipal entrepreneurialism. In addition, it is directly related to the health & wellbeing corporate plan priority and aligns with the council's key objective of ensuring value for money in delivering services. It also meets the council's ethos of collaboration – working with a range of service providers on a collaborative basis rather than through competition and social justice – ensuring the values of local government are founded on equality and meeting community needs.

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)

None arising as a direct result of this report, however, the impact of any improvements will be fully assessed at the time.

LEGAL IMPLICATIONS

The contractual documentation has been based on the Sport England's Procurement Toolkit document for a design, build and maintain contract. Local Authorities are encouraged to use this Toolkit as the templates have been based on best practice in relation to projects of this nature. The contract will need to be modified by legal so it is fit for purpose for the successful bidder's specific proposal.

FINANCIAL IMPLICATIONS

As set out in the report.

OTHER RESOURCE IMPLICATIONS

Human Resources: Officer capacity to oversee the project has been accounted for within the project costings or existing resources, however, the improvements may require a different staffing structure and/or a change in skillsets for staff which will need to be addressed at the time.

Information Services: There are considerable implications for IT which have been assessed as far as possible during the procurement phase, however, further IT support will

be necessary to deliver the project.

Property: As the project involves alterations and improvements to the council's assets, property services will be involved in the delivery phase of the project.

Open Spaces: No specific impact identified.

SECTION 151 OFFICER'S COMMENTS

Cabinet is advised to consider carefully the financial implications of the options, in context of the budget update elsewhere on the agenda, its proposed priorities, the need to make savings and other competing spending/investment.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

none

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