

REPORT TO LEISURE COMPLEX AND BUS STATION PROGRAMME BOARD

Date of Meeting: 30th October 2018

Report of: Director

Title: St Sidwell's Leisure Centre Operator Forecast Business Plan and Procurement

Is this a Key Decision: Yes

This is an Executive Function

1. What is the report about?

- 1.1 To seek final approval for the business case for the operation of the new leisure complex, St Sidwell's Point and to seek approval for the proposed procurement route for securing a new operator.

2. Recommendations:

- 2.1 That Programme Board recommends that the Executive approves the recommendation to commence a Competitive Dialogue Procedure for the procurement of the operator for SSP with pre-tender procurement activity commencing in April 2019 with a specification based on the forecast business plan.
- 2.2 That Programme Board notes:
 - a) the forecast business plan for the operation of the new leisure complex, St Sidwell's Point and
 - b) the link to the procurement for the single operator for all built leisure facilities.

3. Reasons for the recommendations:

- 3.1 The Council is in the process of finalising the build plans for a new leisure centre, St Sidwell's Point (SSP). This centre will be located in the city centre and will replace Pyramids Swimming Pool. It will be a flagship centre for the wider sport and leisure portfolio and a linchpin to the emerging Physical Activity Strategy which aims to meet the corporate plan objective of Exeter being the most active city in England.
- 3.2 An initial business plan was developed by Continuum Sport & Leisure Ltd (Continuum). Due to a number of internal changes and the developing strategy for the wider leisure portfolio, Max Associates was commissioned in June 2018 to produce an up dated business plan.
- 3.3 As part of this process Max Associates has reviewed the original business plan produced by Continuum and updated in December 2017. A new competition analysis has been produced as well as a latent demand report for fitness. The new business plan also takes into account Members minimum requirements on quality and outcomes, including financial deliverables.
- 3.4 The forecast business plan includes an assessment of the national and local context including catchment assessment and competition analysis. It also includes a financial business plan with a review of assumptions against the previous business plan and a summary of the proposed financial position for the new leisure centre. This shows that SSP Leisure Complex will generate the financial return required by the Council alongside quality and access requirements.

- 3.5 The new forecast business plan for SSP has been developed to give the Council an indication of the likely financial position that will be presented by operators during a procurement process. As such it now takes into account a number of additional costs and assumptions that were not factored in to the Continuum business plan. This has had the consequential effect of reducing the overall surplus expected from the new centre. However it is a realistic approach tested by industry standards and benchmarks.
- 3.6 Overall SSP is still expected to achieve a surplus, however it is important to note that the final financial position will ultimately be influenced by the risk profile in the leisure management contract and market trends at the point of bidding. For this reason the planning assumptions underpinning the income and expenditure assessment are conservative.
- 3.7 A build contractor for SSP is due to be appointed in January 2019, with practical completion being reached in the summer 2020 and the centre opening to the public in winter 2020. This new centre will form part of the Council's leisure portfolio, for which a new contract will need to be procured and an operator appointed by May 2020.
- 3.8 The operator for SSP will be involved in the commissioning, testing, and training for the new centre and will be required to commence a fit-out programme from September 2020 to November 2020, prior to the centre opening.
- 3.9 A Competitive Dialogue procurement process allows for dialogue with bidders to develop solutions to meet the needs of the Council and has been assessed as the best option. This is because the procurement process, alongside seeking an operator for SSP, will also be seeking the operator for other Council built leisure facilities including the Riverside Swimming Pool and Leisure Centre; Exeter Arena and ISCA Centre; Wonford Sports Centre; Northbrook Swimming Pool and Northbrook Golf Course.
- 3.10 Therefore approval is being sought to commence a Competitive Dialogue Procedure with pre-tender procurement activity commencing in April 2019 with a specification based on the forecast business plan.
- 3.11 A redacted version of the business plan is included in the appendix to this report. The complete version of the business plan is available for Members and will be presented in the confidential (part 2) section of the Programme Board. The sections removed from the redacted version of the business plan are those containing commercially sensitive information and these are:

- Section 6 : Business Plan
- Section 7: Comparison to Continuum Business Plan
- Section 8: Summary
- Appendix 4: Car Park Refund Assumptions

4. What are the resource implications including non-financial resources.

- 4.1 None other those that have been identified.

5. Section 151 Officer comments:

- 5.1 The Section 151 Officer is satisfied that the assumptions used in the business case are robust. Based on the approved funding for the Leisure Complex and current interest rates, the projected income will generate a small surplus of the costs of borrowing associated with the Leisure Complex.

6. What are the legal aspects?

- 6.1 The key legal aspect is the procurement of the new operator which will be conducted in line with Council Procurement Policy and Procedure revised in 2018.

7. Monitoring Officer's comments:

7.1 This report raises no issues.

8. Report details:

8.1 The regeneration of the Bus and Coach Station site is a long-held aim of the City Council.

8.2 The City Centre is an important driver of the economy of the city and ensuring its continued success is important despite the positive contribution made by major investments in recent years. In order to remain competitive to attract and support investment by current and new businesses further regeneration of the City Centre including one of its major gateways, the Bus and Coach Station, is essential. The redevelopment of the Bus and Coach Station site adding to the leisure dimension of the City Centre is important to enabling it to respond to changing consumer behaviour, to continue to attract high numbers of visitors into the heart of the city and help maintain the city's reputation as one of the best places to live.

8.5 The Council's ambitions to make Exeter the most active city in England is reflected in the success of the 2017 application to become a Sport England Local Delivery Pilot and the emerging Physical Activity Strategy due for publication and consultation during 2019. This will set out how it is envisaged that Council run sports and leisure buildings, playing pitches, parks and play areas will be developed to contribute to achieving 10,000 more active citizens within the target areas and groups.

8.6 St Sidwells Swimming Pool and Leisure Centre will be a ground-breaking state of the art, city centre facility and a linchpin to the Council's sport and leisure offer.

8.7 In developing the business case the latest accommodation schedule for the leisure centre has been reviewed and the confirmed facility mix includes:

- Main Pool (25m)
- Learner Pool
- Multi-purpose Room/Crèche
- Gym (150 stations)
- Spin Studio
- 2 x Group Exercise Studios
- Spa – Sauna, saunarium, salt vaporium, relaxation room, manicure/pedicure station and 4 x treatment rooms
- Small soft play area
- Cafe

8.8 The detailed breakdown of the m2 for each area of the leisure centre shows a total m2 of 5,948m2 and a total build cost of £25,523,745. These values have been used in calculating operational costs such as repairs and maintenance and lifecycle.

8.9 The business plan has been developed based on this facility mix.

8.10 The catchment assessment concludes that:

- There are higher than average numbers of young adults and 24-35 year olds, shown through the dominant mosaic group 'O'. This reflects the nature of a university city and also the close proximity of major employers such as the hospital.
- There is a range of fitness competition across all price brackets, therefore SSP needs to be competitive both in terms of quality and price.

- The pool at SSP is expected to be the prime swimming offer in the city, followed by Riverside Swimming Pool and Leisure Centre. It is important that the programmes for these two pools complement each other rather than compete.
- Latent demand for fitness within the catchment area has been identified at 3,249 members.

8.11 In developing the business plan the following points highlighted by Members have been taken into consideration:

- The centre is primarily for residents of Exeter
- Pricing premium for use of SSP
- The monthly membership rate to be used is circa £36/month
- Consider corporate rate, junior rate, visitor rate
- Need to encourage school visits through potentially free swimming sessions
- Concessions for looked after children
- Free swimming for under 7's for Exeter residents
- Crèche facilities
- Pay living wage
- No zero hours contracts
- Possible demand for usage after 10pm
- Be "sugar smart" in terms of vending and catering offer
- Car parking refund for leisure centre users

8.12 Some of the above requirements will have a financial impact on the business plan, primarily free swimming sessions for schools and free swimming for under 7's. The impact of the free swimming for schools, will ultimately be dependent on the scope of this requirement e.g. does it apply to all schools, all age groups, secondary schools, all sessions or capped number of hours etc. Based on the current business plan assumptions it is suggested that the financial impact of free schools use will be a minimum of £20k per annum. The financial impact of free swimming for under 7's, is anticipated to be in the region of £5k-£10k per annum.

8.13 The general opening hours of the facilities are assumed to be 7am to 10pm Monday to Friday and 8am to 8pm on weekends. However, it is noted that some operators may wish to offer extended opening hours depending on demand, for example longer opening of the gym facilities to compete with the 24/7 gym market. This will be explored during the procurement process.

8.14 The staffing model for the forecast business plan ensures that there are sufficient staff hours to meet health and safety requirements. For example, for Recreation Assistants it is assumed that there would need to be an average of four lifeguards on pool side plus another post for rotation.

8.15. It is assumed that all staff would be on an hourly rate in line with or higher than the National Living Wage. Staff on costs have been included at 15% in addition to National Insurance costs, to cover, pensions, sickness, holidays and training. The business plan includes details of a proposed staffing structure, however it should be noted that operators take different approaches to staffing and therefore staffing structures proposed during a procurement process may differ from the plan.

8.16. The forecast business plan has been developed on the basis that leisure centre users would be able to obtain a car park refund when they participate in any activity at the centre. This will help maximise usage, particularly of casual sessions and will assist in the membership sales process.

- 8.17 Full details of the forecast business plan including income, expenditure, utility, lifecycles costs and pricing information is for Members of the Programme Board to consider in the confidential part of the meeting due to the commercially sensitive nature of this information.
- 8.18 The new forecast business plan for SSP has been developed to give the Council an indication of the likely financial position that will be presented by operators during a procurement process. As such it now takes into account a number of additional costs and assumptions that were not factored in to the Continuum business plan. This has had the consequential effect of reducing the overall surplus expected from the new centre. However it is a realistic approach tested by industry standards and benchmarks.
- 8.19 Overall SSP is still expected to achieve a surplus, however it is important to note that the final financial position will ultimately be influenced by the risk profile in the leisure management contract and market trends at the point of bidding. For this reason the planning assumptions underpinning the income and expenditure assessment are conservative.

9. Procurement Process:

- 9.1 A build contractor for SSP is due to be appointed in January 2019, with practical completion being reached in summer 2020 and the centre opening to the public in winter 2020. This new centre will form part of the Council's leisure portfolio, for which a new contract will need to be procured and an operator identified by May 2020.
- 9.2 The operator for SSP will be involved in the commissioning, testing, and training for the new centre and will be required to commence a fit-out programme from September 2020 to November 2020, prior to the centre opening.
- 9.3 Given the significant budget reductions faced by local authorities many are looking to renew contracts so there will be opportunities within the market place. There are a number of significant operators already present in the South West as shown in the map below.



- 9.4 It is anticipated that the opportunity to be associated with the first Passivhaus leisure complex in the country, a Sport England Local Delivery Pilot and the scope of the contract (city-wide portfolio of facilities) will be an attractive proposition.
- 9.5 It is important for the Council to undertake a simple as possible, time minimising procurement process which provides opportunities for operators to make a difference. Clarity on timelines, outcomes, objectives and scope is critical as well as a sensible approach to risk transfer.
- 9.6 Expert advice has been sought on the procurement options available. Three main options were identified as set out below.

Procurement Option	Approach
1. Restricted	<ul style="list-style-type: none"> • A one step process. • A shortlist of bidders (at least five) may be invited to tender (following the Supplier Qualification stage) • Only one round of bids and no mechanism for dialogue, negotiation or down-selecting after pre-qualification.
2. Competitive procedure with negotiation (CPN)	<ul style="list-style-type: none"> • Permits (but does not require) negotiation to take place between the Council and contractor. • It does not limit negotiations until the final stage when the Council will need to select a winning tender and can only make non-material changes to that tender at that point. • Option to award the contract either based on the most economically advantageous tender or lowest price • Useful for relatively simple procurements, which can be secured based on lowest price only, but where an element of negotiation is required before concluding the contract.
3. Competitive dialogue procedure (CDP)	<ul style="list-style-type: none"> • Allows dialogue with bidders to develop solutions to meet the needs of the Council. Dialogue with each bidder to focus on the different aspects of the procurement.

9.7 The CDP approach is preferred as it will allow for dialogue with bidders to develop solutions that will best meet the Council needs. This is because the procurement process, alongside seeking an operator for SSP, will also need to secure the operator for other Council built leisure facilities.

9.8 As resolved by the Executive in June 2018, a draft Physical Activity and Built Facilities Strategy is under development and is due for formal public consultation in early 2019. This will set out outline plans for the longer term sustainability and development of the Riverside Swimming Pool and Leisure Centre; Exeter Arena and ISCA Centre; Wonford Sports Centre; Northbrook Swimming Pool and Northbrook Golf Course.

9.9 It is anticipated that Council will have adopted a final Physical Activity and Built Facilities Strategy by July 2019. This is a critical timeline as this strategy will be essential for potential future operators to respond to during the procurement process for the operator for SSP and the wider built sports and leisure facilities portfolio. It is important for this Programme Board to note this link and recognise that the Director will need to seek formal approval for the overall procurement through the democratic process in due course and the approval being sought today is limited to the procurement of the SSP operator due to the remit of this Board.

9.10 The procurement process will have three key stages as set out below:

Phase 1	November 2018 to April 2019	Market Engagement Formulation of procurement strategy Pre-tender activity
Phase 2	April 2019 to June 2020	Procurement Activity Preferred Bidder identified
Phase 3	July 2020 to December 2020	Contract award and mobilisation

9.11 Therefore approval is being sought to commence a Competitive Dialogue Procedure for the procurement of the operator for SSP with pre-tender procurement activity commencing in April 2019 with a specification based on the forecast business case.

10. How does the decision contribute to the Council's Corporate Plan?

10.1 The new Leisure Complex would deliver the Council's declared priority of a new swimming pool and leisure complex that is fit for a growing population. It will contribute to the priority of promoting active and healthy lives as we strive to make Exeter the most active city in England with a high quality and accessible built environment and green spaces that encourage active and healthy lifestyles in communities that support wellbeing and reduce social isolation.

11. What risks are there and how can they be reduced?

11.1 There are a number of risks with the project. A key risk is the market not responding favourably to the tender opportunity. This has been mitigated in several ways including: a conservative financial business plan model; by using industry expertise and standard business planning tools and will be further mitigated through the recommended procurement approach which maximises the opportunity for dialogue with bidders to develop solutions to best meet the needs of the Council.

11.2 A risk register is maintained and monitored to avoid and mitigate risk throughout the timeline of the project.

12. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

12.1 The new Leisure Complex will provide a building and facilities to modern accessibility and environmental standards. The business plan will enable the successful operator to pay the living wage, provide free swimming for under 7's living in Exeter (with concessions for looked after children); provide crèche facilities; be "Sugar Smart" in terms of vending and catering offer and actively promote inclusivity through community outreach activities. The new Leisure Complex, on the borders of St David's and Newtown and St Leonard's wards will provide local services to some of the City's most challenged communities in terms of health and wellbeing outcomes.

13. Are there any other options?

13.1 No alternative options have been identified for the business plan which has been designed using industry expertise, standard tools and approaches. Restricted procurement approaches have been considered as have competitive procedures with negotiations but both have been ruled out as set out in 9.6.

Jo Yelland
Director

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

Business Plan for St Sidwell's Point; Max Associates

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Appendices

Appendix A – Business Plan for St Sidwell’s Point; Max Associates (Redacted)

Part Two

Appendix B – Business Plan for St Sidwell’s Point; Max Associates (Full)