

**Epping Forest District Council (EFDC)  
Leisure Management Contract**

**Business Case & Procurement Strategy - Overview  
11 August 2015**

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## **1.0 Introduction**

This paper sets out the procurement strategy for the Leisure Management Contract for the Council and includes

- Existing Performance
- Key Outcomes & Facility Need
- Future Development Options
- Affordability Levels & Financial Implications
- Evaluation Criteria

The overall approach and timetable is based on a new contract being in place for September 2016 and is based on a competitive dialogue process and will consist of the following stages

**Table 1 – Procurement Stages**

<b>Stage</b>	<b>Description</b>	<b>Timetable</b>
Pre Qualification (PQQ)	<ul style="list-style-type: none"> <li>• Market the Opportunity and select a shortlist of circa 5 bidders based on experience and track record</li> </ul>	Sept – Nov 2015
Invitation to Submit Detailed Solutions (ISDS)	<ul style="list-style-type: none"> <li>• Invite bidders to submit proposals for a number of options (mandatory and variant bids)</li> <li>• Enables Council to decide on best option to pursue and a shortlist of circa 3 bidders</li> </ul>	Nov 2015 – Mar 2016
Invitation to Submit Final Tenders (ISFT)	<ul style="list-style-type: none"> <li>• Council determines which option to proceed with and asks the shortlist to provide final tender (their best offer)</li> </ul>	Mar - June 2016
Preferred Bidder and Contract Award	<ul style="list-style-type: none"> <li>• A preferred bidder selected (with a reserve bidder) to enable finalisation and award of contract, followed by mobilisation and handover</li> </ul>	June – Sept 2016

The principles set out in this paper are based on analysis of existing performance and also industry benchmarks on future performance to illustrate what the likely outcomes are from a procurement process.

## **2.0 Existing Performance**

There are a number of areas where the existing contract provides costs to the Council and

should be considered in any future procurement, principally around the following three areas

- Existing Contract and Management Fee with SLM, to include the performance of the Centres
- Current maintenance and other costs which EFDC are responsible for and future condition survey costs

We summarise the existing position over the following paragraphs.

#### *Existing Contract*

The current management fee which EFDC pay SLM will be £942,073 (2015/16 financial year). The overall performance of SLM is summarised below, with further detail in Appendix A.

**Table 2 – SLM Existing Performance (2013/14)**

£'000's	Epping	Loughton	Ongar	Waltham Abbey	Total
Income	745	2,086	856	909	4,596
Expenditure	1,047	1,822	1,134	1,218	5,221
Net Surplus/(Deficit)	(302)	264	(278)	(309)	(625)
Central Costs	120				120
Management Fee	902				902
SLM Profit	N/A	N/A	N/A	N/A	157

It should be noted that the costs illustrated above are based on 2013/14 detailed analysis as the 2014/15 figures are not yet available. This is the reason the management fee differs from the figure for 2015/16.

#### *Maintenance and Condition Survey Costs*

Currently EFDC has responsibility for landlord maintenance and other additional costs relating to depreciation and support costs, which for 2015/16 are summarised below.

- Council Maintenance Costs £106,270
- Other costs £977,030

With the management fee paid to SLM the total revenue costs for 2015/16 are £2.025 million.

In addition to these costs EFDC has undertaken condition surveys of the four facilities in 2013/14 and this has identified a total requirement for condition survey costs of £11.3 million over the next fifteen years. This is split across the Centres as follows

- Epping Sports Centre (ESC) £2.3 million (£1.3m in first 2 years)
- Loughton Leisure Centre (LLC) £2.9 million (£2.3m in years 8 – 15)
- Ongar Sports Centre (OSC) £3.4 million (£2m in first 4 years)
- Waltham Abbey Pool (WAP) £2.6 million (£1.5m in first two years)

With the exception of Loughton all the facilities need significant investment in condition survey works during the next 2-4 years.

#### *Existing Cost Summary*

The existing costs for EFDC to operate the current leisure management contract are in effect £1,052,343 per annum (based on 2015/16 budget), which includes the annual maintenance costs and the management fee. These are the existing costs to EFDC we have used in the business case to establish future revenue savings which can be used to fund capital investment. These costs also exclude any condition survey costs, however the assumption is that these would replace maintenance costs.

### 3.0 Key Outcomes

There has been significant work undertaken to date which has identified the need for facilities within EFDC, which has culminated with the Leisure Strategy prepared in 2014.

As a result of these issues and the need identified, there are a number of key outcomes which the future Leisure Management Contract is expected to deliver, which include

- **Facility Investment**

- Redevelopment of Waltham Abbey Pool, through a total replacement on a new site, with a facility mix which should seek to include:
  - 25 metre, 6 lane pool with learner pool
  - Health and fitness provision to include studio and at least 50 station gym
- Investment in Epping SC and potentially Ongar SC to provide new or refurbished facilities.
- Investment in Loughton LC to improve and enhance the existing provision
- Life Cycle costs responsibility to sit with the contractor
- New or refurbished facilities to be environmentally sustainable, through striving to achieve BREEAM (Building Research Establishment Environmental Assessment Method) excellent.

Through the procurement it is important that the Council specify any facilities which are required from a need analysis but may not be provided by the market on a purely commercial basis, then allow the market to present any commercial activities to improve the financial return. Typically this means the Council should specify the level of swimming provision, sports hall provision and squash provision as none of these would be provided as a commercial proposition.

- **Service Delivery**

- Maintain the level of quality of provision as current as a minimum, with continuous improvement
- Deliver on the Council's key objectives for provision of sport and physical activity
- Increased participation in sport and physical activity, based on improving the current levels of participation

- **Financial Implications**

- Capital Investment to come from a number of sources including Council capital reserves, Section 106, possible grant funding and Council prudential borrowing
- The revenue position is expected to be significantly improved on the current costs to enable any revenue savings to be used to fund capital financing.
- Surplus Share to be included based on simple 50:50 share of surplus above management fee submission, to provide income generation for the Council.
- Utilities benchmarking to be included based on price benchmarking only – Contractor responsible for energy consumption
- Overall the Council is seeking £250,000 revenue savings by year 2 of the contract

#### 4.0 Future Development Options

We identify in this section a number of opportunities for each of the facilities and the overall development of the future facilities. In particular this has taken into account the condition survey and other factors (such as existing design and site opportunities), such as:

- Waltham Abbey is in need of replacement and a study has been undertaken to identify a potential site to relocate the centre to, linked to future health proposals;
- Loughton Leisure Centre is a relatively new facility and the condition survey illustrates that major works are not likely to be required for at least 8 years;
- The Council has undertaken a Masterplanning exercise which has identified North Weald as a potential location for some growth and a desire from local residents for improved leisure and community facilities;
- The new Ongar Academy is in the process of being developed and is likely to require some sports facilities; and
- Epping Sports Centre and Ongar Sports Centre both require significant condition survey work in the near future (within the next 3-4 years).

As a result of these issues the future development options for the facilities are summarised below

- Waltham Abbey – create a new pool and fitness facility on an alternative site to replace the existing
- Loughton Leisure Centre – consider some refurbishment through extension of the health and fitness offer (potentially to utilise the existing octagonal space)
- Epping Sports Centre – there are potential three options which could be considered for the redevelopment of Epping as follows
  - Refurbishment of the Existing Facility – including the potential to demolish part of the facility and create a new build to develop the fitness and reception area.
  - New build facility to replace the existing facility on the same site (essentially to develop a dryside facility)
  - New build facility to replace both Epping and Ongar facilities and create a new Leisure Centre (with pool and dryside) in North Weald
- Ongar Sports Centre – if a new facility is not developed to replace the Ongar and Epping sites then the main option will be to maintain and refurbish the existing. If a new build option to replace both the existing sites at Epping and Ongar then consider the remaining facilities to deliver the school facilities and sporting facilities at the new Academy for community use.

We have therefore considered three potential development options for the future procurement based on these opportunities, as summarised below

**Table 3 – Development Options**

Option	Option Description
Option 1 – Maintain Existing	<ul style="list-style-type: none"> <li>• All existing facilities maintained with limited refurbishment and condition survey works undertaken</li> <li>• Effectively considered the status quo and maintaining the service</li> </ul>

Option	Option Description
Option 2 – Refurbishment & New Build	<ul style="list-style-type: none"> <li>• New facility to replace Waltham Abbey to include Pool and fitness facility (including studio space)</li> <li>• Refurbishment of Loughton to extend health and fitness and redevelop the octagonal space for new facilities</li> <li>• Refurbishment of Ongar SC to resolve condition survey issues and maintain the existing facilities</li> <li>• Refurbishment and part build of Epping SC to create a new facility on the existing site</li> </ul>
Option 3 - Rationalisation	<ul style="list-style-type: none"> <li>• New facility to replace Waltham Abbey to include Pool and fitness facility (including studio space)</li> <li>• Refurbishment of Loughton to extend health and fitness and redevelop the octagonal space for new facilities</li> <li>• Development of new wet and dry leisure facility in North Weald to replace Epping SC and Ongar SC with a purpose built facility to deliver significant service and financial benefits</li> </ul>

It is recognised that the rationalisation option can only be progressed as the development at North Weald progresses and is unlikely to be able to be delivered from the start of the new contract. Indicative financial implications for each of the options have been developed in Appendix A (supported by financial projections for new facilities in Appendices B and C) and we summarise the implications below.

**Table 4 – Financial Implications**

	Existing Costs	Option 1 – Maintain Existing	Option 2 – Refurbishment & New Build	Option 3 - Rationalisation
Capital Required (£'million)	11.3	11.3	17.11	22.07
<b>Revenue (£'000's)</b>				
Income	4,542	4,587	5,406	5,995
Expenditure	5,468	5,414	5,447	5,247
(Surplus)/Deficit	927	826	41	(747)
<b>Savings on Existing</b>	<b>N/A</b>	<b>100</b>	<b>886</b>	<b>1,674</b>

It can be seen that there are significant opportunities to deliver revenue savings through options 2 and 3, however there is a need for greater levels of capital, some of which could potentially be funded through prudential borrowing.

We summarise in the table below some of the key benefits and disadvantages of each of the options

**Table 5 – Options Analysis**

Option	Benefits/Disadvantages
Option 1 – Maintain Existing	<ul style="list-style-type: none"> <li>• Short term solution – resolves condition survey issues</li> <li>• Still requires significant capital investment in condition survey costs and is unlikely to deliver financial outcomes</li> <li>• No real improvement to customer service</li> </ul>

Option	Benefits/Disadvantages
Option 2 - Refurbishment & New Build	<ul style="list-style-type: none"> <li>• Provides a new build for Waltham Abbey</li> <li>• Delivers refurbished facilities but maintains the four facility provision</li> <li>• Some improvement in the service to customers but still retains some of the building issues with Epping and Ongar in particular</li> <li>• Capital cost is higher than maintain existing but opportunities to fund significant amounts of this (in particular the new build for Waltham Abbey through prudential borrowing)</li> </ul>
Option 3 – Rationalisation	<ul style="list-style-type: none"> <li>• Provides a complete new facility solution for the District with three Centre provision maintaining Loughton and creating new builds at Waltham Abbey and North Weald, enabling environmental issues to be addressed</li> <li>• Likely to be highest initial capital cost solution, but also best revenue position through minimizing costs and maximising revenues</li> <li>• Enables future risks of new buildings to be eliminated and resolves condition survey issues</li> <li>• Linked to future developments at North Weald, so unlikely that can be delivered for the new contract start</li> <li>• Potential to generate capital receipts from Epping SC site and Ongar site to contribute to capital costs</li> </ul>

Overall it can be seen that the best long term solution is likely to be Option 3 with the rationalisation, however this is unlikely to be deliverable for the start of the new contract. Option 2 therefore would be a sensible interim solution for the new contract, with the potential to develop a new facility at North Weald as part of the next contract, which we explore later in the project.

It should be recognised that if a new build is to be developed at North Weald then a detailed business case will be required which would assess the need and also the design and financial implications. This should also consider the potential option to retain Ongar with a new facility at North Weald.

### *Procurement Options*

Consideration should also be given to whether the development should be through a Design, Build, Operate and Maintain (DBOM) Contract or whether the Council should invest in the developments and let a management contract. We summarise in Appendix D a comparison of the two principle routes and set out the advantages and disadvantages of each.

We recommend that the Council progress with a DBOM contract approach for Waltham Abbey as this transfers the most risk to the partner and also ensures that any interface issues between capital build and operation are the responsibility of the partner.

Consideration as to the development of a new facility at North Weald can then be given to either a traditional procurement for the construction or a DBOM. If during this procurement the Council can appoint an operator who they can negotiate with over a new facility then the Council may develop the new facility with input from the operator.

## 5.0 Affordability and Evaluation Criteria

### Affordability

It will be important to set out for the bidders an affordability position which considers a number of different factors including the revenue position of the Council and the capital input the Council is prepared to make. It can be seen that options 2 and 3 have the potential for the capital required to be financed through the improved revenue position and as such we recommend that affordability position for the Council is set out as follows:

#### **Council Affordability**

A revenue budget of £927k per annum has been identified as the affordability limit. If bidders require any additional capital funding the Council have the ability to provide up to a further £20 million assuming that the scheme stays within the affordability limits, for which bidders will need to account for repayment costs in accordance with the amounts set out below.

In addition the Council are seeking that the revenue costs (including any capital financing) deliver a saving of £250k to the Council by Year 2 of the new contract.

At this stage of the project the Council has identified the potential to borrow the capital identified above but it will be dependent on overall affordability at the time and subject to any changes in legislation, etc when the capital is required.

The affordability evaluation will be undertaken based on the capital being provided by the Council through prudential borrowing.

For any capital that is provided through prudential borrowing the following repayment costs should be clearly shown within bidders submissions.

- Based on interest rate of 3.63% with a 30 year term
- £59,378 per annum per £1 million borrowed

Thus if a bidder is borrowing £3 million then they should include a repayment of £178,134 per annum in their financial submission.

The actual interest rates (including the provision for MRP) which will be used for any borrowing will be determined at the time of drawdown, but for the purposes of evaluation bidders should use the above figures.

The Council anticipate that any capital investment schemes should deliver significant revenue savings in order to fund the capital investment required as set out above through prudential borrowing.

The Council can then consider how it funds the future capital depending on the bids received, but this gives the bidders the potential to use up to £20.0 million, as long as it can be funded through revenue improvements. We anticipate that bidders will seek to overachieve and come in lower.

The Council can then also consider what length and level of borrowing it undertakes once bids have been received, for example, other councils have borrowed over the life of the asset as opposed to the contract (such as 40 years). There will also be a need to consider

the cashflow for the project once bids have been received and the borrowing can be factored to accommodate this.

**Bid Options and Structure**

We set out in Table 6 below the structure of the bid (both mandatory and optional submissions) for the ISDS phase which will mean bids which will enable the Council to consider the future options before narrowing down the options at ISFT.

**Table 7 – Bid Requirements**

Bid	Requirements
Mandatory Solution (MS)	<ul style="list-style-type: none"> <li>• Design, Build, Operate and Maintain (DBOM) for a new Waltham Abbey Facility with the facility mix identified in the key outcomes (can be partial new build or total new build)</li> <li>• Investment in Loughton Leisure Centre, Epping SC and Ongar SC to improve the commercial return as per option 2 as a minimum</li> <li>• Operation of all facilities, to include accounting for condition survey works</li> <li>• Full responsibility for the building including operational delivery (in accordance with specification) and life cycle costs</li> <li>• 20 Year Contract Term from 1 September 2016</li> <li>• Bidders should include construction programme and should price for interim operation of the existing facilities until the new facilities are open</li> <li>• Bidders can include any additional commercial facilities which improve the overall financial offer.</li> </ul>
Mandatory Variants (MV)	MV1 – As per MS but with the operation of a new facility in North Weald to replace Ongar and Epping. Operation only (including life cycle costs) is required
Optional Variants (OV)	<p>The bidder can submit any additional variant bids which provide added value to the Council and deliver either an improved service or better value for money. In particular some of the areas which the Council has identified as possible added value items include</p> <ul style="list-style-type: none"> <li>• Commercial development (such as soft play, extreme sports, climbing) which deliver enhanced opportunities and finances</li> <li>• Differing contract terms (either longer or shorter)</li> <li>• Different risk profiles, such as life cycle costs</li> <li>• Different prices to customers</li> </ul>

As illustrated in Table 7, The Council also invites any optional variant bids covering one of more of the variables identified if they contribute in a significant way to the achievement of desirable outcomes for the Council. For the avoidance of doubt bidders are able to submit any number of optional variant bids, as well as any other options the bidder may have identified.

The Council shall not consider any optional variant bids unless Bidders have fully complied with the submission and proposals for the Standard Mandatory and Mandatory Variant bids.

In relation to any capital developments included within the base solution (standard mandatory and mandatory variant bids), it is envisaged that a contractual project approval



process will be incorporated into the Contract to take account of any future developments that may need to be finalised post contract award.

Bidders will be asked to provide the capital cost and net revenue impact of each Capital Development proposal, subject to a number of assumptions including detailed design development and award of planning.

**Evaluation**

The approach to evaluation will be to deliver a bidder who provides the most economically advantageous bid to take into account the design and capital build, service quality and commercial arrangements.

Bidders' Detailed Solutions will be scored against the evaluation criteria set out in the Evaluation Model. The Evaluation Model also sets out the maximum weightings that have been given to each criteria. Bidders will be scored only on the information contained within their Detailed Solutions and only against the evaluation criteria in the Evaluation Model.

Tenders will be evaluated against the award criteria set out below, with more detailed criteria for levels 2 & 3.

An Evaluation Team shall be responsible for evaluating the Detailed Solutions and raising clarification issues with Bidders and ultimately making short listing recommendation(s) to the Council's Project Boards and Members.

The Evaluation methodology and Evaluation Model will be applied by the Council to score and rank Bidders and will be used to determine which Bidders and Detailed Solutions will be short-listed for the detailed dialogue phase leading to call for Final Tenders.

<b>Tier 1 Evaluation Criteria</b>	<b>Weighting</b>	<b>Level 2 Sub Criteria</b>	<b>Level 3 Sub Criteria</b>
Services	40%	<ul style="list-style-type: none"> <li>• Outcomes</li> <li>• Quality/Customer Care</li> <li>• Operational Delivery</li> </ul>	<ul style="list-style-type: none"> <li>• Specific areas, such as Sports Development, Staffing, Health &amp; Safety</li> </ul>
Technical	10%	<ul style="list-style-type: none"> <li>• Development/ Design</li> <li>• Planning Risk</li> <li>• Maintenance</li> </ul>	<ul style="list-style-type: none"> <li>• Design and maintenance proposals</li> </ul>
Commercial	50%	<ul style="list-style-type: none"> <li>• Usage, Expenditure &amp; Revenue</li> <li>• Affordability</li> <li>• Contract Acceptance</li> <li>• Capital Costs</li> <li>• Delivery &amp; Risk</li> </ul>	<ul style="list-style-type: none"> <li>• Deliverability of financials, financial, risk</li> </ul>
<b>Total</b>	<b>100%</b>		

Bidders should note that at the Final Tender stage it will be a submission requirement that Bidders submit a solution that reflects the dialogue to date and does not step back or renege from the solution proposed in dialogue.

The Council will score the Detailed Solutions (and Final Tenders) against the Tier 2 (and where applicable Tier 3) sub-criteria set out in the Evaluation Model. The Evaluation Team will score the Detailed Solutions (and Final Tenders) in accordance with the general

principles and descriptions shown in the table below. Each response will be marked out of a total possible score of 10.

Score	Rating	Criteria for Awarding Score
0	Unacceptable	Does not meet any of the Council's requirements.
1-2	Very Weak	Insufficient information provided / unsatisfactory.
3-4	Poor	Fails to meet the minimum standard, some major concerns
5-6	Acceptable	Satisfactorily achieves the minimum standard, acceptable, no major concerns
7-8	Very Good	Exceeds the requirements, good, full and robust response, gives confidence and will bring added value/benefit to the Council
9-10	Excellent	Considerably exceeds requirements, outstanding, and will bring significant added value/benefit to the Council, shows innovation and the Council has full confidence in response.

The pass mark for the following evaluation areas is 5 out of 10 and any responses scoring less than 5 for any area listed below will be considered to not meet the requirements and therefore fail the evaluation and the submission will be rejected. These evaluation areas are

- Health & safety
- Staffing

For the evaluation of affordability the following scoring mechanism will be used, and will apply to the overall annual average Management Fee, to include any costs of capital through prudential borrowing requirements.

The Council is expecting that the overall cost of the Detailed Solutions submitted will be within the Council's affordability threshold

The Council reserves the right to reject any Detailed Solutions which exceed the affordability threshold as being non-compliant.

At ISDS the overall annual Management Fee of the Detailed Solution will be scored on a scale which is fixed as follows:

- an overall annual Management Fee which achieves the affordability threshold will score 1
- an overall annual Management Fee that exceeds the affordability threshold will score 0.
- an overall annual Management Fee of £500,000 under the affordability threshold or less will score the maximum score of 10

The scores will be calculated to one decimal place. A worked example is shown below based on a management fee which is £350,000 below the affordability level:

- Receives 1 mark for achieving the affordability level
- receives a further 6.3 marks for the pro rata'd amount between affordability level and £500,000 below, i.e.  $350,000/500,000 = 0.7 \times 9$  marks (difference between 1 & 10) = 6.3

- total marks received is 7.3 marks (1+6.3)

The Council reserves the right to change the sensitivities of this scoring mechanism at the Final Tender Stage. Without limitation this may be done by reducing the range of costs.

## **6.0 Summary & Recommendations**

The paper sets out the procurement strategy and future development options for the various sites, which illustrate that there is the potential for the capital cost of any new build for Waltham Abbey to be financed through improved revenue positions (using prudential borrowing). However it should be recognised that at this stage these are indicative and there is the potential for additional costs (such as ground conditions) which may increase the capital costs.

The recommended long term solution would be to replace Ongar and Epping with a purpose built facility in North Weald to deliver a more effective and deliverable service to residents, however it is recognised that this is unlikely to be delivered by the start of the new contract and accordingly the bid requirements are structured to allow the Council to deliver this in the new contract.

It is recommended that the procurement for the new leisure contract commences in September 2015 through a competitive dialogue process which seeks to deliver the outcomes set out in this paper and in particular will

- Be through a DBOM contract for a period of 20 years, including the new build of Waltham Abbey
- Be based on the affordability levels identified
- Seek costs for the future operation of the proposed new facility at North Weald, through the procurement
- Consider a detailed business case for the proposed new development at North Weald, including the option to either replace or retain Ongar
- Enable the market to present options which are commercially more favourable to the Council
- Utilise the evaluation criteria within the paper

The aim of the procurement will be to secure a partner who can deliver the outcomes identified in this paper and within the Council Strategy.