

Report to the Cabinet

Report reference: C-009-2010/11

Date of meeting: 19 July 2010



Portfolio: Leisure and Wellbeing

Subject: Sports and Leisure Management Contract Extension Negotiations

Responsible Officer: John Gilbert (01992 564062).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) To note that negotiations with Sports and Leisure Management Ltd (SLM) have resulted in the following proposals:**
 - (a) the Council to provide capital investment of £798,300 for structural alterations at the Loughton Leisure Centre to generate a reduction in the CSB management fee of £100,000 per annum;**
 - (b) the Council to provide capital investment of £192,000 for new fitness equipment at the Epping and Ongar Leisure Centres to generate a reduction in the CSB management fee of £53,000 per annum; and**
 - (c) the withdrawal of the additional management fee of £15,530 at Waltham Abbey Swimming Pool in relation to the management of the proposed new sports hall;**
- (2) Further to recommendation (1) above to recommend to council for approval a supplementary capital estimate in the sum of £62,000 for new fitness equipment at the Epping and Ongar Leisure Centres;**
- (3) That in relation to the construction of a new sports hall at Waltham Abbey Swimming Pool either:**
 - (a) part of the overall management fee savings of £153,000 per annum be utilised to meet the additional operational revenue costs of £48,920 per annum resulting in an overall saving of £104,080 per annum;**
 - (b) the scheme not be proceeded with and the abortive capital costs of bringing the proposals to the pre-planning stage of £42,000 be funded through the District Development Fund; or**
 - (c) the scheme not be proceeded with at this time but be reconsidered annually as part of the normal reviews of the Council's capital programme; and**
- (4) Subject to Members' consideration of recommendations (1) to (3) to extend the contract with SLM from January 2013 to January 2016.**

Executive Summary:

The present contract with Sports and Leisure Management Limited (SLM) for the management of the Council's four leisure facilities is due to end in January 2013. The February 2010 Cabinet agreed that proposals brought forward by SLM to reduce revenue cost should be pursued further, in line with the Council's policy of generating revenue benefits from investing capital monies. The report also recognised that as part of the negotiations the Council would consider extending the present contract for 3 years from January 2013 to January 2016.

There were 2 elements to the proposals put forward by SLM:

- (i) the Council to make capital provision for alteration works to Loughton Leisure Centre (LLC) and new fitness equipment for Ongar Leisure Centre (OLC) and Epping Sports Centre (ESC) in exchange for a reduction in the CSB management fee; and
- (ii) a reduced management fee for the potential new hall at Waltham Abbey Swimming Pool (WASP).

SLM has produced an outline proposal for LLC, which is within the previously allocated capital budget of £800,000 and has offered a decrease in management fee of £100,000 per year in exchange for this investment. SLM predict that the project could be completed by January 2011 and thus the management fee reduction would commence from that date.

The capital for fitness equipment provision requested by SLM is £192,000 in exchange for a reduction in CSB management fee of £53,376 per year. This would necessitate an additional capital allocation of £62,000 2011/12 as only £130,000 is allocated in the 2010/11 capital programme.

SLM has agreed to a nil increase in the management fee for managing the service in the event that the new sports hall at Waltham Abbey Swimming Pool is constructed. It was hoped that SLM would offer a further decrease in Management fee to cover the future increase in revenue costs. This therefore means that, if the sports hall proposal is to go forwards, that additional revenue costs of £48,920 per annum will need to be met. Members have already resolved that the proposal can only proceed if there is no effect upon revenue budgets and therefore, unless some of the overall management fee savings is made available for this purpose the scheme will have to be abandoned.

These are key decisions

“A safe, healthy and attractive place”: address leisure need

Cabinet priorities 2010-11: 21) Subject to meeting the policies on usage of capital resources to commence the design and build of the new sports hall at Waltham Abbey swimming pool

22) To negotiate a 3 year contract extension with SLM, the Council's Leisure Centre service provider

Reasons for Proposed Decision:

That the negotiations with SLM have met some of the requirements of Members as outlined in the February Cabinet in that:

- (i) the LLC project is within the allocated Capital budget and results in a reduction of the

management fee of £100,000 per annum, which represents an excellent return on the capital investment;

(ii) although additional capital is required for the fitness equipment at ESC and OSC it still represents an excellent return on the capital investment of £192,000 through the reduction in the management fee of £53,376 per year; and

(iii) although the SLM offer at WASP does not cover the future estimated increased revenue costs the budget can be covered by the decrease in management fee on the overall contract. If all the savings are taken then the hall extension project cannot proceed resulting in no direct replacement for some of the community services lost by the withdrawal from the Waltham Abbey Sports Centre Joint Use Agreement. It should be noted that the King Harold School are facilitating some community use at their centre.

Other Options for Action:

To not agree to the SLM proposals and not invest the capital in the LLC project and the equipment, thereby losing the offered reduction in management fee.

To continue with negotiations and seek new proposals from SLM. This is unlikely to produce any further increases and any delay would mean that LLC would not open in January 2011 thus losing the advantage to SLM of the traditional post Christmas high attendances

Not to extend the contract to 2016, cease negotiations and re-tender the contract to commence in January 2013.

Report:

1. At its meeting in February 2010 Cabinet received a report on the proposals put forward by Sports and Leisure Management Limited (SLM) in respect of the provision by the Council of capital monies to make structural alterations at Loughton Leisure Centre and the purchase of replacement fitness equipment at the Epping and Ongar Leisure Centres in return for a reduction in the CSB management fee. The report also covered the proposals for a new sports hall at WASP. Cabinet made the following key decisions;

(1) That detailed negotiations be entered into with Sports and Leisure Management to extend the existing management contract from January 2013 to January 2016;

(2) That Sports and Leisure Management be requested to act as the delivery agent for the proposed works at the Loughton Leisure Centre;

(3) That a capital supplementary estimate in the sum of £930,000 for 2009/10 be recommended to the Council for approval;

(4) That a further report be considered by the Cabinet following the progression of the proposed new sports hall at Waltham Abbey Swimming Pool to the pre-planning stage concerning:

(a) whether to proceed to the Design and Build stage; and

(b) whether Sports and Leisure Management be requested to act as the delivery agent for the Design and Build stage or the scheme be competitively tendered.

Loughton Leisure Centre

2. SLM invited design and build tenders from two of their pre-selected main contractors for the refurbishment and extension of the Loughton Leisure Centre. The results were presented to Officers on 14 June. The outline proposals are shown in the plan attached and comprise in general terms of:

- (a) the present communal area and cafeteria being converted into a movement studio;
- (b) the present movement studio becoming part of an extended fitness suite; and
- (c) changes made to the reception area to provide a small communal area with seating, vending machines etc.

3. The only external work is to provide a covered walkway from the rear of the reception area round to the "octagon" area.

4. The cost analysis presented by SLM is as follows:

Item	Cost £
Tender Costs as per Lavingtons Report	471,163
Client Contingency (10%)	47,116
Statutory Services (est)	10,000
Professional Fees – Architects (HCD), M& E Consultants (DDA) Project Manager (Lavingtons)	80,000
Local Authority Fees	10,000
Insurances	5,000
Legal Fees	5,000
Gym Equipment	140,000
Audio Visual Installations	25,000
Site Investigation costs	5,000
Total	<u>£798,279</u>

5. A capital sum of £800,000 is earmarked within the Council's 2010/11 capital programme and the estimate falls just within that allocation. However, the estimate has yet to be fully evaluated and SLM has been made aware that the scheme must remain within the budget allocated which was based on a projection completed by the Council's consultants Stace Project Management. The Council's Assets Management staff would normally oversee the project but due to an extreme concentration of work at present it is necessary to request that Stace project Management takes on this project monitoring role. The fee would be in the region of £5,000 which can be contained within the overall capital allocation.

6. The alterations would be undertaken by SLM in phases so that there is the least amount of disruption to the operation of the centre. If Members agree the proposal then officers will proceed with discussions with SLM on detailed design etc and it is hoped that the new facilities would be available as from January 2011. Planning permission will be required for the external walkway and to ensure that the timetable can be accomplished SLM, at their own risk, are putting in the application prior to Cabinet approval of the scheme.

7. The LLC building works proposal forms part of the negotiations for a 3 year extension to the present contract and reduction in management fee. If the recommendations of this

report are agreed in relation to these alterations then the reduction in management fee of £100,000 per year will commence on the opening of the new Loughton Leisure Centre fitness facility in January 2011.

Equipment Capital

8. Within the proposals included in the negotiation with SLM was the Council making capital provision for fitness equipment at Epping Sports Centre and Ongar Leisure Centre. For a capital investment of £192,000, SLM have agreed to a decrease in the management fee of £53,376 per annum. However, only £130,000 is allocated in the present Council capital programme and therefore a supplementary capital estimate in the sum of £62,000 is needed in 2011/12 if this agreement is to go ahead (*Recommendation (2)*).

Waltham Abbey Pool Hall Extension

9. SLM have engaged consultants Hadfield, Cawkwell and Davidson to undertake work to develop the new sports hall proposal to the planning pre-application stage. The capital estimate of £1.72m was set out in the Cabinet report of July 2009, and is detailed below.

Capital

Item	Est. capital cost
Develop proposal to planning stage (RIBA stage D)	130,000
Develop and oversee proposal to completion	130,000
Main construction costs	1,133,000
Other costs – sports equipment	46,250
sub station	100,000
EFDC officer costs (estimated)	25,000
Total construction related costs	1,564,250
Contingency @ 10%	156,425
Total project cost	1,720,675

10. Officers were also given the remit to ensure that the revenue consequences of the addition of a sports hall at Waltham Abbey Pool would not increase the Council's CSB expenditure. The Cabinet report in July 2009 outlined the estimated revenue costs to the Council of the new proposal as follows:

Revenue

Item	Est. revenue Cost £
Use of £1.721 million of capital at 2%	34,420
Additional SLM management fee	15,350
Estimated NNDR	10,500
Estimated annual building costs	4,000
Total additional revenue	64,270

11. SLM, as part of the contract renegotiations, have stated that they are prepared to waive the £15,350 additional Management fee. However, they have also stated that they are unable to bring forward any additional management fee savings. This then reduces the overall increase to £48,920 which could be met through utilising some of the management fee savings realised from the LLC and fitness equipment capital investment (*Recommendation (3)(a)*).

12. However, if savings are not earmarked the scheme will be unable to proceed at this time and consideration will be required on whether to:

(a) remove the scheme from the Council's capital programme with the capital already expended reverting to revenue through an additional DDF allocation (*Recommendation (3)(b)*); or

(b) retaining the scheme in the capital programme and reviewing the viability of the scheme as part of the normal annual reviews of the capital programme. This will not require the capital expended to revert to revenue (*Recommendation (3)(c)*).

Resource Implications:

If Members were minded to agree the outcome of the negotiations on the basis of a three year extension to the Contract being agreed, the following would result:

- The LLC Scheme could go ahead for the capital cost of £800,000 in accordance with the 2010/11 capital budget. When the project is completed then the management fee savings of £100,000 per year will commence (estimated January 2011). Thus management fee savings up until the end of the contract in January 2016 will total £500,000, broken down as follows:

Period	CSB saving (£)
Jan 2011 to end March 2011	25,000
Apr 2011 to end March 2015	400,000
Apr 2015 to January 2016	75,000
Total	500,000

- SLM have stipulated that there will be an uplift to the SLM income figure of £150,000 as from the opening of the LLC fitness studio to take into account SLM's estimate of the new business to be generated by the project. This income figure is added to the uplifted original tendered income figure and is used when calculating the difference between the actual income and the tendered income as the Council receives 30% of any difference as income share. Depending upon the overall success of the project and the rest of the contract, the Council may benefit from or may forego some potential income.

- The purchase of fitness equipment for ESC and LLC at a capital cost to the Council of £192,000 (£83,000 at ESC and £109,000 at OLC). This will be spent over 2010/11 and 2011/12. There is currently £130,000 in 2010/11 capital programme and therefore a further £62,000 is required by way of a supplementary capital estimate. The management fee saving would be £53,376 per annum commencing when the purchases are made, broken down as follows:

	Savings 2011/12	Savings 2012/13	Savings 2013/14	Savings 2014/15	Savings 2015/16 (Jan)	Total savings
ESC Mar 2011	22,911.46	22,911.46	22,911.46	22,911.46	17,183.59	108,829.43
OLC Dec 2010	7,522.14	30,088.54	30,088.54	30,088.54	22,566.41	120,354.17
Total	30,433.59	53,000.00	53,000.00	53,000.00	37,750.00	229,183.59

The Director of Finance and ICT considers this use of the capital resources to be a good investment and fully in accordance with the Council's policy on the use of capital for revenue generating purposes. Furthermore, the investment in LLC will improve and enhance one of the Council's key assets which may be of considerable benefit when the contract is tendered again in 2016.

The overall management fee savings of £153,376 per annum could be part utilised to offset the additional revenue costs associated with the new sports hall facility at Waltham Abbey Swimming Pool. However, if members wish to see the full management fee savings taken into the CSB, it will not be possible for the project to proceed. If the project ceases then the Capital of £42,000, for the abortive work being undertaken to preplanning stage, needs to be taken out of the 2010/11 capital budget and be funded by a one off DDF allocation. If however the scheme is put on hold, it will need to be processed to the pre-planning application stage using the existing capital allocation, but under those circumstances it will not be necessary to revert the moneys expended to capital until a final decision not to proceed is taken.

Legal and Governance Implications:

The SLM contract expires in January 2013. The contract provides for a three year extension until January 2016 with the agreement of both parties. Should the extension proceed a revised contract will need to be drawn up to reflect that extension plus incorporate the new financial agreement.

All the assets provided to the Contract, to SLM, remain in the ownership of the Council at the end of the contract. All new equipment and structures will come under the terms and conditions of the present contract.

Safer, Cleaner and Greener Implications:

All new building projects will take into account best environmental practice.

If the new sports hall at Waltham Abbey Pool is not constructed there will be no additional facility available to offset the loss of some of the community provision which arose through the ending of the Joint Use Agreement with the King Harold School.

Consultation Undertaken:

Discussion with SLM as outlined in the report.
Consultants Hadfield Cawkwell and Davidson.

Background Papers:

Cabinet reports and recommendations:

13th July 2009

1st February 2010-06-16

and associated Scrutiny and feasibility reports.

Impact Assessments:

Risk Management

The LLC project exceeds £800,000. SLM has been made aware that the amount is the capital limit and the project is to be brought in within the budget. Monitoring to be completed by consultants if the further funding of £5,000 is agreed.

If the three year extension is not agreed the contract will need to be re-tendered by January 2013. Work would commence in Spring 2011. This tender exercise will potentially coincide with the retendering of the waste contract with possible resourcing consequences

If part of the identified savings in management fees is not utilised for offsetting the revenue costs of the new sports hall, the project will not be able to proceed on the basis that:

(a) Members have resolved that the project can only proceed if there are no CSB consequences; and

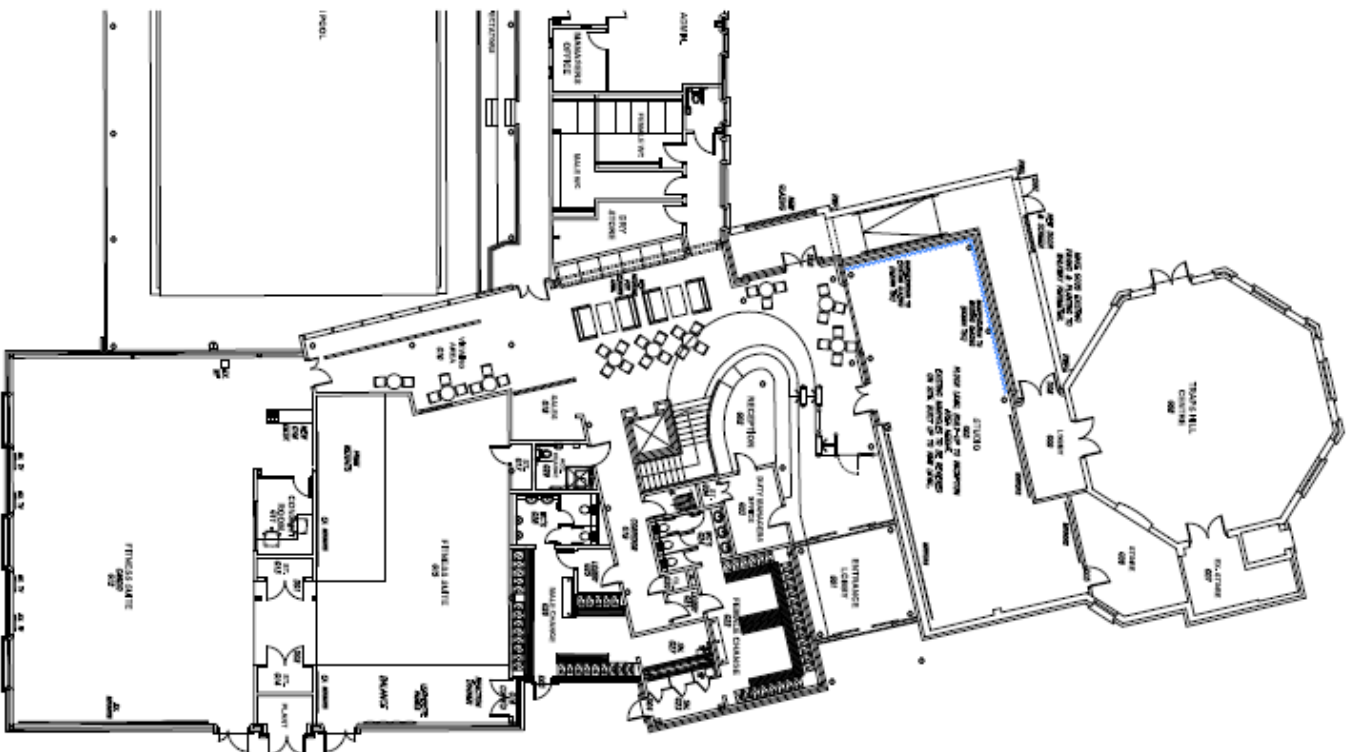
(b) using the capital without generating a revenue benefit does not accord with the Council's capital strategy.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

The increase activity areas will allow greater usage of the facilities. General monitoring of the Contract and of participation figures ensures that access and usage for all is maintained throughout the service.



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