

REPORT TITLE: MEADOWSIDE LEISURE CENTRE – UPDATE ON OPERATOR
TENDER

11 FEBRUARY 2021

REPORT OF CABINET MEMBER: Cllr Malcolm Prince, Cabinet Member for Sport,
Leisure and Communities

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WARD(S): WHITELEY AND SHEDFIELD

PURPOSE

Meadowside Leisure Centre provides a much valued facility serving the southern parishes of the District. It provides for both leisure and sporting opportunities and allows community activities to be accommodated. It also provides a base for the Whiteley Town Council.

An interim contract for the operation of the centre has been in place since September 2020 and a tender process has now been completed for the longer term. Cabinet (CAB 3194) approved the procurement and evaluation process for this.

Having completed the tendering process this report now seeks approval to award the contract for the operation of the Meadowside Leisure Centre.

RECOMMENDATIONS:That Cabinet:

1. Agree that Everyone Active be awarded the operator contract to manage Meadowside Leisure Centre based on their variant bid for a period of ten years with a five year optional extension.
2. Approve a capital budget and expenditure for Meadowside Leisure Centre totalling £300,000 funded by prudential borrowing and approve incurring that capital budget as noted in the estimated financing costs outlined in section 2.2.
3. Approve that additional revenue expenditure, (averaging £56,000 per annum over 15 years, based on the variant bid, (which includes provision for the Council's capital financing costs), be met from the base budget provision included in the proposed 2021/22 General Fund budget set out in CAB3289 elsewhere on this agenda
4. Agree that costs in the first year be based on actual net operating costs, assessed on an "open book" basis, with all additional costs over and above the approved budget being met from "tranche 5" of the Government Covid-19 grant, future leisure grant allocations or a mix of the two.
5. Delegate authority to the Service Lead - Legal to prepare, negotiate and enter into an operator contractor based on the Sports England template and associated agreements.

1 COUNCIL PLAN OUTCOME

- 1.1 The provision and enhancement of sports facilities, as recommended in this report, supports priorities identified in the Council Plan in relation to Living Well and promoting increased participation in physical activity.
- 1.2 Ongoing building improvement works at Meadowside Leisure Centre (MLC) also support the Council's commitment to tackling the climate emergency.

2 FINANCIAL IMPLICATIONS

- 2.1 The recommended bid (variant) as outlined more fully later in this report involves the Council funding £300,000 of capital investment to install air management plant to the first floor of the building, an expansion of the gym, replacement of the gym and group exercise equipment in year one and year seven of the contract and to replace the group cycling bikes in year four. The profile of the investment will be £177,000 in 21/22, £22,000 in 24/25 and £101,000 in 28/29 and if agreed, this will be funded by the Council through prudential borrowing. The average net cost of this bid, including the financing costs related to the borrowing, is £56,000 per year over the expected life of the contract.
- 2.2 The annual revenue costs of the recommended bid over the proposed 15 years contract are set out in detail in the exempt appendix. The General Fund Budget report (CAB3289) includes a base budget provision of £60,000. It is anticipated that costs in 2021/22 will be higher and impacted by ongoing social distancing controls. If approved, it is proposed that the first year operates on an "open book" basis and costs in excess of this £60,000 be met from the "tranche 5" Covid-19 grant allocation, future leisure related grant allocations or a mix of the two.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 Under section 1 of the Localism Act 2011, the Council has the power to undertake any activity a normal person could undertake, for the benefit of the authority, its area or persons resident or present in its area. The Council is satisfied it has the enabling power(s) to procure and award a contract for services following a robust and lawful procurement exercise.
- 3.2 The Council has an obligation as a best value authority under section 3 of the Local Government Act 1999 to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness" which includes a duty to see that best value is reasonably attained, together with a duty of care to the public to ensure that both the facilities are safe to use and maintained in a condition that is fit for purpose.

- 3.3 The procurement was conducted in accordance with the Council's Contract Procedure Rules and Public Contract Regulations 2015 (PCR2015) and subsequent contracts will be managed in-line with the Council's Contract Management Framework. The opportunity was advertised in the EU via an OJEU notice (Official Journal European Union) on 25 September 2020 and was also advertised on the UK Government site: Contracts Finder.
- 3.4 The recommendations are in keeping with the invitation to tender which stated that the Council is procuring a 10-year management contract that will commence in spring 2021 (with an option at the absolute discretion of the Council to extend the contract by a period or periods of up to a maximum of 5 additional years).

4 WORKFORCE IMPLICATIONS

- 4.1 The bid received is from the incumbent interim operator so there are no TUPE implications as staff have already been transferred to them.
- 4.2 Ongoing the contract can be managed within existing resources at the council.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 As part of the Council's asset management approach a building survey of MLC was commissioned in September 2019. The repairs identified were deemed typical for a building of this age and type. The maintenance repairs required include: double glazing in the sports hall, corrosion to the metal pitched roof, leaking gutters and downpipes and lack of accessibility to the changing rooms and toilets. This repair and maintenance work will be carried out by the Council over the next 10 years as part of the ongoing asset management for the building funded within the existing property maintenance budget
- 5.2 Work agreed by Cabinet in December 2019 to increase the loading capacity of the first floor studio has now been completed with an investment of £28,500. This will enable the upper floor to be used for exercise classes thereby providing more flexibility for the rest of the centre allowing more and varied activities to take place. Operators were made aware of this so that they could factor it into their bids.
- 5.3 In addition, mechanical extraction fans have now been installed in the sports hall with an investment of £24,700, to meet Covid-19 ventilation guidelines, enabling it to be COVID-19 compliant once Government COVID-19 restrictions are eased.

6 CONSULTATION AND COMMUNICATION

- 6.1 Whiteley Town Council and Sport England have been consulted throughout the process.
- 6.2 Ward Members have been fully briefed.
- 6.3 Existing users of MLC are an important group of stakeholders who will continue to be kept informed of any agreed future improvements and changes.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 Opportunities are currently being explored as part of the Council's ongoing asset management work at MLC to improve sustainability and reduce carbon emissions from the building. This work will include surveys and an option assessment to consider how to improve both thermal performance and energy efficiency, which may include: increase levels of insulation to the building fabric, solar panels and other sources of heating. This will align with the Council's Carbon Neutrality Plan and will show what contribution this building can make to the achievement of the targets and objects in that plan.
- 7.2 The above has been allowed for in the tendering process so that any future energy savings can be accounted for in the contractual arrangement with the operator by ensuring that any energy savings are passed back to the Council. The contract with the appointed operator will include provision for any loss of income due to works instigated by the Council.

8 EQUALITY IMPACT ASSESSEMENT

- 8.1 The appointed operator will be required to manage the centre in accordance with all relevant legalisation and guidance and to promote best practice throughout its activities.
- 8.2 Provision has been made within the contract with the operator to offer a Saver Card for those on low incomes and/or disabilities which offers discounted entry and booking charges.
- 8.3 The contract also ensures that core prices are set by The Council rather than the operator. This ensures that core activities are available to all at an affordable cost.

9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 All membership details are already held by the operator in accordance with GDPR. This data will be managed in compliance with GDPR as required and specified through the contract.

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
<i>Property improvements cause disruption to users and the operator</i>	Work with both the contractor and operator to co-ordinate works in a safe manner to ensure continued use. Where necessary undertaking works out of hours	These works will provide a much improved, more functional and sustainable building Sustainability improvements and less energy consumption
<i>Community Support Disruptions to users and affordability to keep the facilities open</i>	The new contract will provide stability and security for the period of the contract	Building work improvements will make the centre much more flexible and will greatly improve usability to the benefit of the community
<i>Project capacity</i>	The refurbishment works will be managed by Everyone Active and overseen by the Council's Estates team	
<i>Financial / VfM - Annual cost to the Council to keep MLC open</i>	The tender process has brought forward a bid including investment in the centre which is considered to offer good value for money	The recommended improvement capital works will increase the usability and capacity of the centre and help to ensure that it is viable
<i>Innovation</i>	Everyone Active's bid includes many aspects of innovation in terms of running and marketing the centre.	Great enhancement in the promotion of a much improved community facility
<i>Reputational risks</i>	Everyone active is a highly regarded operator	
<i>Other</i>		

11 SUPPORTING INFORMATION:

- 11.1 Cabinet (CAB 3192) approved in December 2019 a procurement process to seek an operator to manage MLC and to report the results of the process and evaluation back to a future Cabinet. This procurement and evaluation process has now been completed.
- 11.2 The procurement process sought tenders for the management of this facility for a 10 year period (with a 5 year optional extension) and included the opportunity for bidders to include investment options to enhance the centre and hence improve its viability.
- 11.3 It should be noted that the specification for the contract includes a number of 'core' prices, which are ones that the Council is able to control. The purpose of this is to ensure that the pricing structure reflects the Council's objective for a facility that is accessible to the whole community. The core prices cover pay-and -play swim sessions, gym sessions, exercise classes, exercise referral and badminton court hire. Beyond them, the operator is free to set prices. In addition, the operator will be required to offer a Saver Card for those on low incomes.
- 11.4 One tender was received which included within it two bids. These are referred to as the base bid and the variant bid. Both bids included different levels of investment, by the bidder and the council, for both the building and for equipment and thereby different associated levels of management fee.

For clarity, the scope of the two bids received were as follows:

- A) Base Bid: the operator has proposed £171,741 of capital investment by the Council to install air management plant to the first floor of the building and to replace all existing gym and group exercise equipment in year one and year seven of the contract and to replace the group cycling bikes in year four.
- B) Variant Bid: the operator has proposed £300,000 of capital investment (included in their financial offer). This covers the installation of air management plant to the first floor of the building to create new studio space and the expansion of the gym. The proposal includes the replacement of the gym and group exercise equipment in year one and year seven of the contract and to replace the group cycling bikes in year four.
- 11.5 A detailed breakdown of the capital investment is shown in **Exempt Appendix 3**.

11.6 Evaluation of MLC tender

11.7 The tender bid received was from Everyone Active. Other operators did show initial interest through the process but did not submit formal bids. Everyone Active took over the management of River Park Leisure Centre and MLC on an interim basis from Places Leisure in September 2020 and will also manage the new Winchester Sport & Leisure Park when it opens in spring 2021. They are a highly experienced operator who manage over 200 leisure facilities (over 60 local authority contracts) in the UK.

11.8 The Sports Consultancy, a specialist consultant in sport and leisure, was appointed to support and advise the Council with this procurement exercise. With their support the bids have been evaluated using the evaluation criteria as published in the Invitation to Tender (ITT) document. Overall, the evaluation framework was split between two broad areas on the following weighting:

- Quality criteria: 40%
- Commercial criteria: 60%

11.9 The quality criteria were split into the seven areas set out below and bidders were required to provide a method statement response to each. The seven areas were given individual weightings which were determined through a relative important assessment undertaken by council officers and The Sports Consultancy. The criteria and weightings were as follows:

a)	Programming and Pricing	9%
b)	Asset Management and Cleaning	10%
c)	Sports Development, Health and Wellbeing and Outreach Work	6%
d)	Marketing Customer Care and CRM	5%
e)	Staffing	5%
f)	Financial Management, Reporting and IT Systems	3%
g)	Contract Mobilisation	2%

11.10 The commercial criteria consisted of the following:

a)	Proposed Management Fee	50%
b)	Surplus Share	5%
c)	Commercial mark-up	5%

11.11 The seven method statements were scored on a scale of 0 (non-compliant) to 5 (exceeding the requirements) The Council also set a minimum benchmark score of 2 and if any method statement response fell below this mark the whole bid would be rejected.

- 11.12 The quality aspects of the two bids from Everyone Active, meet and exceed the Council's minimum requirements in all areas. Both the base bid and the variant bid offer the same scores for quality but the variant bid scores more highly overall when the commercial scores are factored in due to the investment element which decreases the management fee payable to the operator.
- 11.13 The weighted scores are shown in **Exempt Appendix 2**
- 11.14 It should be noted that Everyone Active has proposed to share any annual financial over-performance above the baseline management fee position on a 50:50 basis with the council. In order to ensure the Council receives any surplus share that it is due, rigorous contract monitoring will be required throughout the contract period. This will be achieved through The Sports Consultancy's Contract Monitoring Index. In recent months, the Council has been working with The Sport Consultancy to put this in place and it is now operational and will be continued into the new contract. In simple terms, the tool takes the monthly financial and non-financial information that the operator is contractually required to provide and stores and presents it in a way that monitors cumulative performance across the contract period. Currently, it calculates any financial balance due from the open book reconciliation process. However, once the contract switches back to a fixed management fee arrange, this element will be modified to compare actual performance to the original financial bid and hence identify any annual surplus share due.
- 11.15 The variant bid represents a higher risk option because all £300,000 of capital investment is funded directly by the council. However, the expenditure relates directly to specific assets, such as gym equipment and investment in the building and so as long as these assets are maintained appropriately they should retain their market value if the contract were to end prematurely for any reason, including non-take up of the five year extension. The council will retain ownership of these investments
- 11.16 It should also be noted that Everyone Active would procure and carry out the proposed improvement works and purchasing of equipment, as they will be able to get more favourable prices through their countrywide contractual arrangements with suppliers. The council's estate team will oversee these works on behalf of the council.
- 11.17 The first year of the contract would operate on an open book basis, due to the unpredictable period of operation with reduced capacity due to continued COVID-19 guidelines and implications.
- 11.18 A summary of the financial implications of the two bids is presented in **Exempt Appendix 1**.

11.19 Alternative local sporting facilities – update

- 11.20 The major development in North Whiteley includes the provision of a new secondary school including a 4 court sports hall and 2 full sized artificial turf pitches. The school is located 1.5km from MLC. There is a trigger in the Section 106 agreement which states that the land will be available before the occupation of 1,100 dwellings and it will take 2 years from then to build the school. Current occupation stands at around 175 dwellings.
- 11.21 The sports facilities at the secondary school will be available for community use as the operator of the school is required to enter into a Community Use Agreement with Winchester City Council as part of the Section 106 agreement for the North Whiteley Development. It is intended that the sports accommodation at this school will be in a separate building with its own entrance.
- 11.22 Two private gyms are also planned for the area. Planning permission has been granted for British Land to build a new fitness gym in the proposed retail block in Whiteley Shopping Village adjacent to MLC. Forum Four also have planning permission for a gym with 60 stations at Solent Business Park which is within walking distance of MLC.
- 11.23 Furthermore there is a large municipal gym, also operated by Everyone Active in Fareham.
- 11.24 Update on Current Interim Contract for operation of Meadowside Leisure Centre
- 11.25 The council's leisure management contract with Places Leisure was terminated by mutual agreement on 31 August 2020. An interim contract was established with Everyone Active to operate River Park Leisure Centre and MLC until Winchester Sport & Leisure Park opens in spring 2021 and whilst a procurement exercise was undertaken for MLC.
- 11.26 The interim operator submitted forecast amounts for each month so that a budget could be established and approved for the contract period. Further lockdowns and additional closures were not factored in (due to uncertainty over whether these would be needed and how long they would be in place for) when establishing these forecasts which has impacted the actual amounts.
- 11.27 Additional costs above the expected forecast figures have been incurred from September to December 2020 due to:
- loss of income during the second lockdown in November
 - loss of income due to Tier 4 closure of leisure centres
 - unexpected maintenance work at River Park Leisure Centre
 - additional staffing costs during mobilisation

- MLC sports hall remaining closed until January 2021 due to issues with the air circulation in the building and the requirements to deliver a Covid-19 safe environment

It is anticipated that the remaining estimated costs will stay within forecast figures for the remainder of this contract even if there are further lockdowns in 2021. Draft figures for November indicate that the net cost is in line with the forecast and the current lockdown will also result in lower operational costs.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 Close the site altogether and dispose of it.

This was rejected due to its impact on the local community and previous decision to invest in facilities in the Southern parishes to support the growing population in Whiteley.

Advantages of this approach:

- No ongoing running costs for the council
- Capital receipt from the sale
- Whatever the site will be used for will bring an environmental benefit
- This option does not depend on interest from the market (other than the future sale of the site)
- Low risk option as it involves closure and disposal of the site

Disadvantages of this approach:

- Loss of accommodation for Whiteley Town Council who would require another facility in the town centre and they would lose the changing rooms for their grass pitches
- Negative impact on sport and leisure participation in Whiteley and the surrounding area
- Loss of a community sports facility.

12.2 Delay start of Operator Contract

This was rejected due to the impact on the business and the operator see risks below:

- The centre will be closed for a period and customers will migrate to other leisure facilities during this closure. Given the level of competition in the area, there is a risk that once lost, the customers might not return

- The Council will have changed the terms of the tender, the operator would be entitled to make a claim for loss of income consequent to this change
- As MLC is located in an area of high competition for health and fitness facilities and this area makes up a significant proportion of the income (circa 50%), the potential impact on the management fee would be significant.

12.3 Extend the Interim Leisure Centre Contract

This was rejected as there would be a further period of uncertainty for both the community and the operator which could result in additional costs to the Council and potentially a sub-optimal operation.

- If the interim contract were to be extended then the Council will be liable to pay costs especially if Covid-19 guidelines continue or there is another lockdown
- The interim contract does not have the full specification of participation and other targets so the longer the Council is locked into that arrangement, the longer the period that the operator would not be required to deliver against them.

12.4 Managing the Leisure Centre In-house

- By bringing the service back in-house, the Council would take on the responsibility for all staffing, operational and asset risk for the centre. As the Council has not managed Meadowside Leisure Centre directly since 2011 it does not have the in-house expertise to complement and manage the customer-facing staff at the facility
- The centre would become a standalone operation within an area where there is lots of competition (rather than having the backing and support of a major operator). In this situation, it would be difficult for it to compete with nearby facilities and it is likely that income levels would drop. As a guide, the council's Consultant's Facilities Index, which is a database of financial performance from just over 1,650 public leisure facilities in the UK, highlights that the average income per visit from an in-house leisure facility is £2.99 compared to £4.59 for outsourced facilities
- Staffing costs would inevitably rise as a guide, a London borough recently brought their service back in house and staffing costs increased by around 35%
- There would be a loss of the mandatory NNDR relief on the building as the occupier of the building would no longer be a charitable trust

- It is likely that the Council would not be able to grant itself a similar level of VAT exemption on income that Everyone Active benefits from, which would further increase the annual net cost of the centre
- The process of bringing the operation back in-house, the transfer of staff and setting up of the required internal team to manage it would be time consuming and would incur additional costs.

13 Conclusion

- 13.1 MLC provides a much valued facility serving the southern parishes of the District. It provides for both leisure and sporting opportunities and allows community activities to be accommodated. It also provides a base for the Whiteley Town Council. It is also an important part of the District's built sports facilities and if lost would leave a gap in provision in the area.
- 13.2 The centre has much potential and the recent investment already made by the council together with that proposed in Everyone Active's bid will significantly enhance its usability, flexibility and usage.
- 13.3 The bid received through the tendering process does require both a capital investment by the council and an ongoing fee to be paid to Everyone Active. Considering the size of the centre and the local competition that exists in the area particularly for fitness gyms this is not surprising. There is, however, provision in the contract for any financial over performance against forecast figures to be shared equally with the Council and this would be used to offset the management fee. There is no guarantee that this will occur, however, considering the development that is being undertaken in the area and the need to meet a growth in demand from new and existing residents this is a welcome inclusion.
- 13.4 Taking that all into account it is recommended that that Everyone Active should be appointed to run MLC for the Council based on their variant bid.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

CAB3192 - [SOUTHERN PARISHES SPORTS FACILITIES](#), 23 December 2019

Other Background Documents:- None

APPENDICES:

Exempt Appendix 1- Financial Implications of the two Bids

Exempt Appendix 2 – Tender Weighted Scores

Exempt Appendix 3 – Breakdown of Capital Investment