



CABINET

15 November 2017

Subject Heading:

Update on the SLM Contract and financial implications.

Cabinet Member:

Councillor Melvin Wallace

SLT Lead:

Sarah Homer

Report Author and contact details:

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Policy context:

The Council's Culture Strategy 2013-2015

Financial summary:

This report details the updated financial position as at October 2017 regarding the above contract with SLM Ltd. The contract is expected to deliver net income to the Council of £13.528m over the 20 year term after meeting the Council's capital financing and operational costs of new and refurbished facilities. This achieves substantial savings to the Council given the previous arrangements would have resulted in a net cost to the Council in the region of £16.5m. This delivers savings of £1.1m a year which have been factored into the MTFS. However, there is a need to smooth operational financial performance over the period to 2022/23 until the business model reaches maturity by a total of £2.111m.

Is this a Key Decision?

Yes

When should this matter be reviewed?

November 2018

Reviewing OSC:

Towns and Communities O&S

The subject matter of this report deals with the following Council Objectives

Communities making Havering	<input checked="" type="checkbox"/>
Places making Havering	<input checked="" type="checkbox"/>
Opportunities making Havering	<input checked="" type="checkbox"/>
Connections making Havering	<input type="checkbox"/>

SUMMARY

On 12 July 2016 following a competitive procurement process, Cabinet agreed to award the Council's Sports and Leisure Management Contract for a period of 20 years from 1st October 2016 to the company Sport and Leisure Management Ltd (SLM). The award of contract included: investment in new health and fitness facilities at Central Park Leisure Centre, the building of a new Hornchurch Sports Centre, the operation of the new Sapphire Ice and Leisure and delegated responsibilities to Officers to negotiate a variation to the contract for the operation of Chafford Sports Complex subject to the costs to the Council being mitigated as far as possible. This also included future investment in the Noak Hill Sports centre as a part of the overall contract.

This report sets out progress made during the first year of the Sports and Leisure Management Contract (October 2016 to September 2017) and the resulting financial implications.

RECOMMENDATIONS

That Cabinet:

1. Note the progress made under the new contract with SLM;
2. Note the updated revenue financial implications, for inclusion in the Medium Term Financial Strategy;
3. Note that whilst the capital investment is planned to be financed from borrowing, the capital financing costs will be met in full from the net savings to be realised across the lifespan of the contract within the leisure service budget;

4. Approve a contribution of £2.111m from the Business Risk Reserve to set up an earmarked Leisure Contract Reserve that will be utilised to support the financial performance of the service until business maturity is achieved in 2023/24;
5. Agree that all budget virements to and from Leisure Services budgets will be subject to approval by the s151 Officer or their representative for the duration of the contract to ensure the integrity of the overall financial model is maintained.
6. Recommend to Council that the capital expenditure and proposed financing as set out within the Exempt Appendix Financial Implications in Table 5, is approved for inclusion within the Approved Capital Programme.

REPORT DETAIL

1. Background

- 1.1 Following a robust tender process lasting two and a half years, Sport and Leisure Management Ltd (SLM) were awarded the Sports and Leisure Management Contract for 20 years. Theirs was the most financially advantageous bid to the Council and the bid met the quality requirements specified in the Tender documents. The identified savings assume that planning permission is secured for the major investment proposals included in the tender award. If planning permission is not granted for a new build Hornchurch Sports Centre then Cabinet agreed in principle to revert to a 10 year contract.
- 1.2 SLM commenced the contract to manage the facilities below on 1st October 2016:
 - Hornchurch Sports Centre
 - Central Park Leisure Centre
 - Noak Hill Sports Complex (from January 2017)
 - Sapphire Ice and Leisure Centre (once opened – Spring 2018)
- 1.3 Within the terms of the contract, SLM continue to manage Chafford Sports Complex albeit under the terms and conditions of the previous Sports and Leisure Management Contract (2006-2016) whilst negotiations continue that aim to secure the operation of the Chafford Sports Complex in the longer term.
- 1.4 The major investment proposals at the award of contract that are the basis of the agreed contract are:
 - A new build Hornchurch Sports Centre
 - An extension to Central Park Leisure Centre
 - Opening of the Sapphire Ice and Leisure Centre
 - Ongoing Lifecycle investments across all sites

2. Sports and Leisure Management Contract – the First Ten Months

- 2.1 Officers are pleased to report that the contract is progressing well. Attendances at the leisure centres for the first nine months of the new contract are in line with expectations. There has been a 35% increase in disability participation rates across the centres through SLM working in partnership with local disability groups. Female participation in netball has increased across the Borough with over 80 women now playing in the weekly 'Back to Netball' league. The Everyone Active Referral Scheme (EARS) is steadily increasing its referral numbers from local GP's and more patients are completing the 12 week programme and using the leisure facilities on a regular basis. SLM have also hosted a number of high profile Regional events e.g. CHKA Karate competition, Kororo Kai Ju Jitsu and Ultra-White Collar Boxing.
- 2.2 **Noak Hill** - The opening of Noak Hill Sports Complex in January 2017 was completed on time. There are no new financial implications arising from this element of the contract.
- 2.3 **Hornchurch Sports Centre** - Following contract award to SLM, Cabinet became aware of a desire, primarily from local swimming clubs, to consider a 50m swimming pool as part of the facility mix. Whilst this was under consideration, the submission of a planning application for a new Hornchurch Sports Centre was delayed.
- 2.4 The analysis of associated capital investment and operational revenue costs over the life of the contract concluded that the 50m option did not represent good value for money and is not affordable to the Council. The original proposed 25m pool will therefore progress, with an improved design based on the work done for the 50m pool. Should planning permission not be secured (decision expected January 2018) for a new 25m development resulting in the project not progressing, the contract will revert to a 10 year model, rather than the current 20 years. This would require a further review of the financial model for the contract and consideration of long term financial implications with a further report to Cabinet. The financial implications set out in this report assume this project will progress as planned.

In the event Hornchurch new build does not progress, abortive costs as set out in the exempt financial implications would need to be met from the Council's general fund revenue budget and budgetary provision would need to be identified.

- 2.5 The new Sports Centre at Hornchurch was a central part of the procurement of the Sport and Leisure Management Contract. Funding for the new Leisure Centre was factored into the evaluation of the Tenders, along with the cost of borrowing, the income to be received from SLM over the life of the contract and the savings that would be delivered.
- 2.6 SLM have submitted the tendered build costs of the proposed new Hornchurch Sports Centre. This cost is being verified by an independent quantity surveyor

appointed by the Council to review the tender returns. Once confirmed, SLM will oversee the build of a new Hornchurch Sports Centre, subject to planning permission being approved and bear the risk of any cost overrun. It should be noted that the Council will fund the agreed cost of capital investment through borrowing. Further details are included in the exempt financial implications of this report.

2.7 The revised timetable for a new build Hornchurch Sports Centre, based upon Planning consent being obtained, is:

- 2/3 October 2017 – Public and Ward Member engagement events
- 31 October 2017 – Planning application submitted
- January 2018 – Planning application outcome
- May 2018 – Construction commences of new centre (subject to planning)
- November 2019– Construction complete
- December 2019 – New centre opens/demolition commences of existing centre
- June 2020 – Demolition of existing centre complete and new car park opens

2.8 **Central Park Leisure Centre** – the extension of the gym opened in October 2017 which increased its size from 80 stations to a 140 station gym. Further work to refurbish the health and fitness changing areas for both male and female users is also complete. It should be noted that, in accordance with the agreed contract, the Council will fund the agreed cost of investment. The cost of borrowing has been factored into the financial model.

2.9 **Sapphire Ice and Leisure Centre** – the new centre in Romford is progressing well and on schedule to be handed over to SLM by Wilmott Dixon in January 2018. Following this, SLM will finalise the fit out of the facility. There will also be a period of staff training at the facility before it opens to the public. This is on target and set to take place by 1st April 2018 at the latest. It is likely that the site will open earlier than expected. However, as an opening date has not been confirmed, this has not been factored into the model. Should this occur, then the Council will receive revenue earlier than expected.

2.10 **Chafford Sports Complex** – the Complex is operated by SLM whilst discussions continue with Harris Academy Rainham (HAR) about future options for this facility. Post award of contract to SLM, it became apparent that the proposed investment and status of ownership of the site placed restrictions upon the ability of the Council to invest capital resources in improvement. Whilst it is possible to fund investment from revenue resources, this is considered unaffordable. Further, such investment may have adverse VAT implications for both HAR and the Council.

2.11 With no capital investment, SLM have indicated that there is a limited time that they would be able to operate the facility. This is due to its condition and the adverse impact to the commercial aspect of delivery, combined with the inability to maintain customer satisfaction levels.

- 2.12 The Chafford facility is currently the subject of further negotiations between Council Officers, SLM and the Harris Academy due to complexities of managing the VAT position of the parties and the capital investment required to be made by either the Council or the Academy to enable SLM to continue to operate the facility under the new contract. A further update will be brought to Cabinet in due course. It should be noted that the updated financial position does not take account of the longer term income and expenditure relating to the Chafford facility.

REASONS

3. Reasons for the decision:

- 3.1 The financial management and accounting arrangements associated with the leisure management contract awarded in accordance with the decision of July 2016 Cabinet, need to be appropriately reflected within the Council's Approved Capital Programme and financial governance arrangements.

IMPLICATIONS AND RISKS

4. Financial implications and risks:

- 4.1 Detailed financial implications including financial analysis of the winning bid and estimated costs of future procurement exercises in relation to capital investment are commercially sensitive and as such included in the exempt Appendix attached to this report.

5. Legal implications and risks:

- 5.1 The Council has entered into the SLM contract in the exercise of its statutory power to provide a wide range of recreational facilities within the Borough under section 19 of the Local Government (Miscellaneous Provisions) Act 1976.
- 5.2 Certain revisions have had to be made to the contract subsequent to award in October 2016, which for Procurement purposes amounts to a modification of this contract during its term. In order for such modifications to be valid, they must fall within the exceptions provided for in Regulation 72 of the Public Contracts Regulations 2015 (the "Regulations").

- 5.3 Paragraphs 2.1 – 2.12 above and items i) – viii) in the Exempt Appendix ‘Financial Implications and Risks’ detail the changes which have become necessary as a result of the issues arising with the Hornchurch Sports Centre and Chafford Sports Complex, and other relevant sites.
- 5.4 For purposes of Regulation 72, the new build Hornchurch Sports Complex were clearly anticipated and provided for in the contract and therefore fall within the scope of exemption available under Regulation 72(1) (a) of the Regulations.
- 5.5 The changes arising from the VAT implications of the Chafford Sports Complex apart from being outside the scope of consideration of this report are also not ‘substantial’ for the purposes of Regulation 72(8) and would also qualify as exempt under Regulation 72(1)(e).
- 5.6 In conclusion, as the proposed modifications to the contract would result in lower costs to the Council, do not fall outside the ambit of the leisure management contract nor qualify as substantial changes, the risk of legal challenge arising from the said modifications are very low.

6. Human Resources implications and risks:

- 6.1 There are no new human resource implications or risks associated with this report.

7. Equalities implications and risks:

- 7.1 An EIA was an Appendix to the 12 July 2016 Cabinet report and is still applicable to this report.

BACKGROUND PAPERS

None