

READING BOROUGH COUNCIL

REPORT BY EXECUTIVE DIRECTOR OF ECONOMIC GROWTH AND  
NEIGHBOURHOOD SERVICES

TO:	POLICY COMMITTEE		
DATE:	20 JANUARY 2020		
TITLE:	AWARD OF A DESIGN, BUILD, OPERATE AND MAINTAIN CONTRACT FOR BOROUGHWIDE LEISURE FACILITIES		
LEAD COUNCILLOR:	GRAEME HOSKIN	PORTFOLIO:	HEALTH, WELLBEING & SPORT
SERVICE:	CULTURE	WARDS:	BOROUGHWIDE
LEAD OFFICERS:	GIORGIO FRAMALICCO / KATE GRAEFE / DONNA PENTELOW	TEL:	0118 937 2604
JOB TITLE:	DEPUTY DIRECTOR PLANNING, TRANSPORT & REGULATORY SERVICES / ASSISTANT DIRECTOR PROCUREMENT AND CONTRACTS / ASSISTANT DIRECTOR CULTURE	E-MAIL:	<a href="mailto:giorgio.framalicco@reading.gov.uk">giorgio.framalicco@reading.gov.uk</a> <a href="mailto:kate.graefe@reading.gov.uk">kate.graefe@reading.gov.uk</a> <a href="mailto:donna.pentelow@reading.gov.uk">donna.pentelow@reading.gov.uk</a>

1. EXECUTIVE SUMMARY

- 1.1 This report provides an update on the process to procure a strategic partner to design, build, operate and maintain the Council's four leisure centres and seeks permission to award a 25-year contract to the preferred bidder. The contract specification issued included:
- A new-build solution at Rivermead, incorporating a new competition standard pool with provision for diving
  - A new community pool at Palmer Park linked to existing facilities
  - Improvements to existing leisure centres at South Reading and Meadway
  - Introduction of membership and customer schemes allowing access to all Council facilities
- 1.2 The current leisure contract with Greenwich Leisure Limited (GLL) for the Rivermead Leisure Centre expires at the end of December 2022. A negotiated termination position has been agreed with GLL and facilitated a Borough wide procurement process to include the future management of Rivermead, Palmer Park, Meadway and South Reading leisure centre sites.
- 1.3 Aside from the management arrangement with GLL for the Rivermead Leisure Centre, the remaining centres are currently managed directly by the Council.
- 1.4 Following an understanding of local needs and assessment of delivery options, a detailed procurement process has tested the market through a competitive dialogue procedure for an external provider to deliver a modern and customer focused offer which drives up participation in physical activity. This process included direct dialogue and negotiation with the bidders to clarify and develop the submissions to enable the Council to achieve its strategic outcomes and best value for money. As an

outcome of that process, two comprehensive and competitive bids were submitted to the Council in October 2019. Further information on the detail of the bids, which is commercially confidential, is provided as Appendix B in Part 2 of the agenda.

- 1.5 A robust evaluation has been undertaken supported by an independent specialist leisure consultant, external cost and design advice and support from Sport England. Bids were evaluated with 50% of the marks awarded for commercial and 50% for technical criteria. The details of the evaluation are confidential and held in Appendix B to this report which is presented in Part 2 of the agenda. The result of the evaluation is a recommendation to enter into a new contract with the preferred bidder.
- 1.6 The new contract will secure significant improvements to the current offer and will be a key driver in delivering a number of Council priorities and community outcomes. These include:
- Significant capital investment in leisure facilities with the provision of a brand new flagship centre at Rivermead, a new pool at Palmer Park and significant improvements to both Meadway and South Reading centres
  - Increased participation in physical activity by residents, including disadvantaged and inactive groups
  - An outreach and engagement service to help to secure the Council's objective to improve health and wellbeing by increased physical activity
  - Physical activity development programmes covering a wide range of sports and activities, above and beyond key commercial areas
  - Improved sport and physical activities and targeted Sports Club programme
  - Improved opportunities to promote local employment including new apprenticeships
  - Exercise referral as part of the base specification for the service

The requirements of the new contract, further detail of which is as set out in Appendix A, and its implementation will also deliver the Council's emerging Reading Strategic Outcome Planning Model.

- 1.7 This presents the Borough with an opportunity to create a step change in the quality and standard of the leisure offer available to residents and visitors to Reading and will support the Council's ambitions around public health and increasing participation in physical activity. Officers have undertaken the evaluation drawing on the current context and understanding of priorities.
- 1.8 As part of the new contract the Council will enter into a lease agreement for the four sites with the preferred bidder including the requirement to advertise the loss of open space to be used for leisure purposes to facilitate the construction of new facilities at Rivermead and Palmer Park.
- 1.9 This report also provides details of a variant bid option to develop a larger 6 lane pool at Palmer Park in place of the minimum 4 lane pool set out in the specification at Appendix A.

#### **Appendices:**

- Appendix A - Summary of Requirements
- Appendix B - Summary of Bids & Tender Evaluation (**confidential**).
- Appendix C - Bidder A images (**confidential**)
- Appendix D - Risk Register
- Appendix E - Reading Strategic Outcome Planning Model.
- Appendix F - Equalities Impact Assessment

- 2. RECOMMENDED ACTION: That Policy Committee:**
- 2.1 Authorise the award of a 25 year design, build, operate and maintain contract for Boroughwide leisure facilities to Bidder A subject to the satisfactory conclusion of the statutory stand still period.**
  - 2.2 Note the variant bid to construct a 6 lane community pool at Palmer Park, but taking into account the Borough's leisure needs and additional financial, planning and carbon implications, agree the construction of a 4 lane community pool at Palmer Park.**
  - 2.3 Note that TUPE regulations apply to the contract award.**
  - 2.4 Delegate authority to the Executive Director for Economic Growth and Neighbourhood Services to finalise contractual arrangements in consultation with the Lead Councillor for the Health, Wellbeing and Sport, the Assistant Director for Procurement and the Assistant Director for Legal and Democratic Services and, subject to agreement of the Council's Medium Term Financial Strategy by Council in February, delegate scheme and spend approval for the Leisure procurement in accordance with the 2020 - 2023 Capital Programme to the Executive Director for Economic Growth and Neighbourhood Services in consultation with the Assistant Director for Finance.**
  - 2.5 Delegate authority to the Assistant Director for Culture to finalise the Strategic Outcome Planning Model (Appendix E) in consultation with the Lead Councillor for the Health, Wellbeing and Sport.**
  - 2.6 Delegates authority to Assistant Director for Property and Assets and the Assistant Director of Legal and Democratic Services to enter into a Lease of land at Rivermead, Palmer Park, South Reading Leisure Centre, and Meadway Sports Centre with the prospective bidder and to facilitate the building of new facilities at Rivermead and Palmer Park land be advertised as a disposal of open space in accordance with S123 of the Local Govt Act 1972.**
  - 2.7 Notes the risk register and equalities impact assessment attached as Appendices D and F respectively in determining the recommendations set out in this report.**

### **3. POLICY CONTEXT**

#### **Background**

- 3.1 The Council's Corporate Plan 2018 - 2021 (refreshed in June 2019) sets out the key priorities for the Council which include 'Securing the economic success of Reading' and 'Promoting health, education, culture & wellbeing'. The proposals and recommendations set out in this report directly contribute to these priorities by securing a new operator to manage existing and develop new leisure facilities including a competition standard pool with diving provision and a new pool at Palmer Park to replace Arthur Hill Pool. The local economy would be boosted by a significant capital spend of circa £35m in the next 3 years.**
- 3.2 Reading has a range of leisure facilities that are of mixed quality and the Council recognises that the provision of suitable and readily accessible sports facilities underpins participation in sports and physical activity and supports the delivery of the social and economic benefits that can be attributed to an active community.**

With over 750,000 people using the Borough's sports and leisure facilities across the town each year, Reading needs a leisure offer that reflects its needs and that aligns with the Council's wider policies and priorities, including public health objectives and tackling inequality.

- 3.3 The Leisure procurement process has been informed by the completion of two pieces of work:
- An indoor sports facilities needs assessment; and
  - An options appraisal and feasibility study for the development of new leisure facilities.

The indoor sports facility assessment used both Sport England national facility modelling and consultation with local organisations and clubs to examine the quality, capacity, suitability and accessibility of facilities within Reading. A particular priority was the provision of water space given the condition of Reading's swimming pools. This needs assessment identified a set of clear priorities.

- 3.4 In summary, the facilities needs assessment confirmed whilst there is sufficient pool space in the Borough the quality of provision needs upgrading. The options appraisal recommended the replacement of the most outdated facilities with more modern cost-effective leisure facilities that would also offer a much better service to residents and users. Specific proposals included: a new competition standard pool and related indoor leisure provision, including sports hall, to replace Central Pool/Rivermead; a new 'neighbourhood' pool at Palmer Park to replace Arthur Hill Pool; and investment in other retained facilities (Meadway Leisure Centre and South Reading). Whilst the needs assessment indicated a requirement for a new 5 court sports hall, sports halls have subsequently been built at WREN and Reading Girls Schools meeting that deficit.

- 3.5 In 2019 the Council commissioned the production of a Strategic Outcome Planning Model (SOPM) (Appendix E). This Planning Model reinforces and updates the research and findings of the 2015 facilities needs assessment. The SOPM assesses the strategic needs of Reading, including considering the assessments made through the Sport England planning models and Council priorities. In addition, it tested the solution identified and national planning models against public consultation (confirming that the identified facility mix is appropriate to local need). It also identifies strategic needs and will strongly influence programming priorities and confirm the undertakings the Council partner leisure provider is making to deliver the Council's priorities. Following the Sport England methodology, it both provides a framework for confirming facility need, but is also a substantial evidence base to support the funding application to Sport England.

- 3.6 Accordingly, the Council commenced a procurement process to identify a single partner leisure provider to improve and operate all its indoor leisure facilities across the town. In order to minimise costs and drive the best possible value for money, both new and existing facilities would be delivered and managed by a development partner specialising in leisure provision. From the outset the intention was to award a contract that:
- encompasses the design, build, operation and management of the facilities
  - drives up participation rates in physical activity
  - achieves value for money
  - secures health outcomes
  - provides cost assurance, providing a fixed fee over a contract period of 25 years where a greater degree of risk transfer was passed to the contractor than traditional routes.

- 3.7 The scale of capital investment required to deliver new facilities as outlined in this report will be circa £43m over the 25 year contract period. To secure this level of investment and to get best value the Council sought a delivery partner to operate the Borough's leisure facilities. The leisure operator market is very competitive with a number of operators seeking to expand their operations and Reading is an attractive location because of the high potential levels of demand. In addition, provision of new facilities will further drive up demand and significantly reduce operating costs compared to the current operation.
- 3.8 There is also both an inherent saving on baseline operating costs via the charitable / trust model that all the operators bring to the table in one form or another and a degree of savings will be secured given the economies of scale offered by a large leisure provider. All these factors mean that through appointing a new leisure operator there would be a significant revenue improvement compared to the current costs of the Council's provision. However, the revenue savings are required initially to support the capital investment needed to deliver new facilities and drive up participation and standards.
- 3.9 Greenwich Leisure Limited (GLL) currently run the Rivermead leisure facility and are contracted to do so until 31 December 2022. In 2018 the Council and GLL reached a mutual agreement to allow an early break in their contract which allowed Rivermead Leisure Centre to be included in a new integrated borough-wide leisure offer for residents.
- 3.10 In January 2019 the Council published a detailed specification seeking and inviting interested leisure operators to submit detailed solutions. The specification issued included:
- A new-build solution at Rivermead, incorporating a new 8 lane competition standard pool with provision for diving, learning, introduction to water space and a 5 court sports hall which could accommodate league 1 basketball.
  - A new minimum 4 lane community pool and improved fitness offer at Palmer Park linked to existing facilities
  - Retention and improvements to existing leisure centres at South Reading and Meadway
  - Introduction of membership and customer schemes allowing access to all Council facilities
- 3.11 The Council's emerging budget and capital programme which has been subject to public consultation recommends a capital allocation to £43m within the 3 year Medium Term Financial Strategy. These figures will be adjusted to reflect the capital allocation implications set out in this report prior to the approval of the budget in February 2020.
- 3.12 A number of local clubs and user groups have provided feedback on their aspirations for what new facilities should provide. This feedback was shared with bidders to help inform the development of their proposals.

### **Procurement Process**

- 3.13 The procurement process has been conducted in compliance with the Council's Contract Procedure Rules and in accordance with the Public Contract Regulations 2015 (the Regulations). Within the Regulations, there is provision for certain services to be procured using the Light Touch Regime, which means that not all aspects of the Regulations are required to be followed. Leisure Services are within the services defined as those to which the Light Touch Regime applies. However, for the purposes of transparency, the principles of a fully regulated procurement have been followed.

- 3.14 The Council used the Competitive Dialogue Process to discuss different options with bidders to identify the best solution(s) to meet its needs, including, how outcomes would be achieved, the most appropriate legal and financial make-up and risk transfer.
- 3.15 The Competitive Dialogue Process consists of a number of stages, with it being possible to de-select suppliers at key stages. The stages and the number of bidders involved in the leisure procurement process are as follows:
- 3.16 Contract Notice (advert) issued and expression of interest from bidders
- 11 bidders expressed an interest in the Leisure contract when it was advertised in March 2018
- 3.17 Supplier Qualification
- 5 bidders completed the required supplier qualification all of whom met the expected standards and were selected to proceed to the dialogue stage of the process and were invited to submit an outline solution in May 2019.
- 3.18 Outline solutions Two bidders submitted outline solutions by the deadline in July 2018 and both were suitable to carry forward to the next stage of dialogue. There was no need to deselect any bidders and a period of initial dialogue was arranged to explore the proposed outline solutions and to help refine the Council's detailed requirements.
- 3.19 The Invitation to Submit Detailed Solutions (ISDS) was issued on 28 January 2019 and both bidders returned compliant submissions by the closing date of 15 April 2019. A period of extensive dialogue then followed which closed on 27 September 2019. Dialogue enabled the Council to discuss specific elements of the Council's requirements and Bidders ISDS submissions. This included Technical issues such as facility requirements and service delivery, commercial issues such as legal aspects, risk transfer, business plans, and Capital investment proposals/opportunities.
- 3.20 Invitation to Submit Final Tender (ISFT)
- Both bidders were invited to submit final tenders on 30 September and both returned their final tenders by the deadline of 17 October 2019.
- At both ISDS and ISFT the Council defined its minimum core facility and service requirements. Bidders were asked to provide the best solution to the Council that met these requirements and were also encouraged to explore additional aspects that would have a positive impact on cost of service, participation and exceeding the Council's outcome requirements. This allowed bidders the flexibility to develop their own independent solution that was supported by their previous experience. This led to the Council receiving final solutions that provided a different offer but still achieved the core requirements. Evaluation of these different offers to the Council is managed within the procurement process by considering the solutions independently against the agreed criteria.
- 3.21 The process was supported by an in house team, involving officers from leisure, procurement, legal, finance, estates, human resources and public health. To support and inform the process, the Council appointed a dedicated project manager and a leisure specialist consultancy to provide specialist technical advice.
- 3.22 Sport England (SE) has also been advising the Council in respect of design and cost guidance in accordance with their published guidance notes.

#### **4. THE PROPOSAL**

## The Procurement Specification

4.1 Given the complex nature of the contract that is being procured, the specification for the facilities and services required from any Contractor is split into three sections, as follows. More information is set out in Appendix A:

### **A. Facilities Specification**

This sets out the requirements for the design, architecture and building services installations of the new/ enhanced Facilities by area, e.g. swimming pool, sports hall, etc.

### **B. Technical Specification**

This further sets out the facility and service requirements relating to architectural requirements, mechanical and electrical engineering requirements, IT requirements, external works requirements, construction site management and general requirements such as sustainability and service availability

### **C. Services Specification**

This sets out the strategic contract aims and key performance indicators. This section also sets out the specific site operation, including facilities management requirements, programming and pricing.

4.2 All sections of the specification have the overall core aim to provide high quality sports and leisure centres with the aim of promoting accessible sport and physical activity opportunities in the area. The specifications are a schedule linked to the overarching DBOM contract.

## Tender Evaluation

4.3 Following the initial qualification stage, the high-level evaluation criteria weightings that applied to all stages of the procurement process, including the Final Tender stage, are detailed below:

Criteria	Weighting
Commercial	50%
Technical	50%

4.4 The above main criteria are broken down into the following sub-criteria and weightings:

Criteria		Weighting (%)
<b>Commercial</b>		
1	Management Fee	30%
2.1	Viability of Business Plan	5%
2.2	Viability of the capital cost investment proposals	5%
3	Legal and Commercial Proposals	10%
	Heads of Terms for each sub-contract	Reference only
	Organisational Chart illustrating the relationship between the Bidder and each subcontractor	Reference only
	<b>Sub-total</b>	<b>50%</b>
<b>Technical (Operational and Design/Construction Method Statements)</b>		
4	Facility Proposals	25%
5	Management of the Construction Approach	5%
6	Meeting the Authorities Strategic Outcomes	5%

Criteria		Weighting (%)
7	Pricing (for customers)	2.5%
8	Facilities Management	5%
9	Marketing and Communications	2.5%
10	Staffing	2.5%
11	Quality Operations including catering offer	2.5%
Architectural/Design drawings (floor plans, elevations, disabled provision etc.) RIBA stage 2		Reference only but used to support Q4
Design Calculations (gross area, sports dimensions etc.)		Reference only but used to support Q4
<b>Sub-total</b>		<b>50%</b>
<b>Total</b>		<b>100%</b>

### Submitted Bids & Evaluation Summary

- 4.5 A summary of the bids submitted is set out in Appendix B. The tender evaluation is also provided at Appendix B. Due to commercial sensitivity, Appendix B is held as a confidential appendix and is available in Part 2 of this Committee agenda.
- 4.6 The evaluation team carried out independent assessments of the commercial and technical/quality scoring for each submission. Combining the two independent assessments provided a final tender score for each submission. The details of the scoring is provided in Appendix B. The highest scoring tender attracted a score of 86.67 out of a possible 100 points.

Tenderer	Overall score
Bidder A	86.67%
Bidder B	82.90%

### Award and Recommendation

- 4.7 The outcome of the evaluation team's assessment of the bids is that Bidder A scored the highest. The recommendation set out in this report is to award the contract to Bidder A.
- 4.8 The evaluation team considered that Bidder A provided a better overall proposal which met the specification requirements including:
- better overall design for both Rivermead and Palmer Park
  - less capital spend requirements
  - living wage foundation commitment
  - BREEAM excellent building standards for both Rivermead and Palmer Park
  - a more sustainable design meeting energy and carbon ambitions
  - a better learn to swim offer
  - quicker build programme for all sites, especially for Rivermead
  - greater articulation of carbon reduction plans
  - well established partnership between Bidder A and its experienced and well-regarded building contractor.
- 4.9 Further, Bidder A has exceeded the specification requirements in a number of areas. At Rivermead, the water space proposal exceeds requirements and the provision of a café, information hub, soft play and three party rooms also exceeds the council's requirements. At Palmer Park, Bidder A is proposing a soft play zone, a number of



party rooms plus a café and information hub, all of which exceed the council's requirements.

- 4.10 The updating and upgrading of facilities proposed will increase use of facilities and participation rates in physical activity of the local population generally. The council have been using Your Reading Passport concessions and programming as the main, but unsophisticated, method of promoting use by target and vulnerable groups. Along with facility improvements, Bidder A is proposing a broad range of targeted activities, programming and marketing to meet need, and increase use of the centres. Resultant increased physical activity rates and improved public health outcomes of individuals within these groups will be achieved.

The initiatives include:

- A non-chargeable resident play and pay card - offering up to 30% off the cost of non-member price
- Targeted Better Health and Fitness membership (offering 39% discount)
- Targeted sessions such as disability swim sessions, and dementia friendly activities
- Discrete pool lifts to aid access at new swimming pools
- Free taster sessions aimed at under-represented groups
- Space being provided to public health
- Free passes for disability helpers and carers
- Community outreach programme delivering monthly sessions in community settings e.g. parks, community centres
- Changing villages providing discrete and private changing
- Providing activities aimed at specific groups, eg Women only activities, *This Girl Can* campaigns, and boccia
- Annual service review with representatives from target groups

The range of activities and concessions proposed by Bidder A to promote and encourage the use of the facilities by key target groups is summarised in the Equalities Impact Assessment.

- 4.11 The Public Services (Social Value) Act came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits. The council's requirements set out the need for the leisure contract to deliver against a range of social value outcomes:

- Improving health and wellbeing and reducing health inequalities
- Providing local economic benefit
- Ensuring local people have the skills to prosper
- Supporting safe and inclusive neighbourhoods
- Promoting community cohesion
- Educating, protecting and providing opportunities for young people
- Supporting and caring for vulnerable adults and older people
- Providing high quality services
- Sustainability and environmental improvements

- 4.12 To deliver these outcomes, Bidder A has outlined an indicative programme aimed at encouraging general participation whilst also targeting those who have been traditionally underrepresented e.g. young people, people who are economically disadvantaged, people with disabilities, older people, and BAME groups to increase levels of participation.

- 4.13 The indicative programme includes a range of initiatives including:

- Dedicated sessions
  - 'Try Sport' sessions e.g. badminton, squash, football - drop in offer providing flexibility to participate with friends or as an individual.
  - Monthly free taster sessions with signposting to regular centre activities.
  - Inclusive Fitness Initiative which supports leisure centres to become more welcoming and accessible to disabled people
  - Free targeted sessions each week at each centre on a range of activities for concessionary users
  - Creating a Children/Young Person Hub at all centres - with a particular focus on South Reading and Meadway
- 4.14 Bidder A is proposing eight weight management courses per year, increasing the current Exercise Referral Scheme (ERS) which supports a physical activity and behaviour change intervention for those with a Long Term Medical Condition, cardiac and cancer rehabilitation and a falls prevention scheme.
- 4.15 For older people, the proposals include replicating at the other satellite centres the successful 60+ Club Hub currently at Rivermead. Other services on offer include:
- Free trials, taster sessions and open days
  - Walking Sports in partnerships with Age UK, U3A and NGB's
  - Host Better Club Games and Walking Sport Festivals once a quarter to feed into the Better Club Games
  - Dementia friendly sessions e.g. swimming.
- 4.16 In order to measure and report on the impact of these initiatives, Bidder A has worked with a leading UK university to develop and implement a tool which calculates the monetary value of the impact of its services in the key areas of health, life satisfaction, education attainment and crime diversion.

### Options Appraisal

- 4.17 The following options are applicable for consideration:
- 4.18 **Option 1 - Do nothing** - The Council could continue to manage the three centres 'in house' and allow the contract with GLL to expire in December 2022. In this option the Council would not undertake the capital works proposed by the successful bidder. The service would be managed as a declining service with the closure of facilities as they become uneconomical to repair. It would also mean that the risk and liability of centre operations would sit with the Council.
- 4.19 This option would fail to drive participation rates up and secure health outcomes, it would suffer from reduced income impacting on the Council's revenue position. As the Council's key priorities will not be delivered this option is not recommended.
- 4.20 **Option 2 - Manage the facilities in-house.** The Council could continue to manage the three centres 'in house' and allow the contract with GLL to expire in December 2022. In this option the Council could choose to undertake capital works directly itself and in order to provide a benchmark of the costs of this service an in house comparator has been completed against Bidder A's offer. This option would secure full internal control of the service operations. It would also mean that that risk and liability of centre operations sit with the Council.
- 4.21 Over the term of the 25 year contract and after making a number of assumptions related to:

- Sport England benchmarking which indicates a reduction in income given the likelihood that a local authority would not be able to secure the same level of income / profit as a specialist leisure provider (for example it would not have the management and supply chain economies of scale of commercial providers). A smaller than average reduction of income has been presumed reflecting newer high quality facilities.
  - The additional in house resource needed to provide equivalent expertise as the commercial provider.
  - The additional National Non Domestic Rates (NNDR) costs which the local authority would have to accommodate which a Leisure Trust would not.
- 4.22 The estimated cost of comparable in-house service would be in excess of twice the cost of that offers by Bidder A. Hence, in terms of value for money this option is not recommended.
- 4.23 **Option 3 - Enter into a new single DBOM management contract with Bidder A for a period of 25 years.** For the reasons set out in this report this is the recommended option.

### Contract Variant

- 4.24 Both bidders were asked to submit a variant to their bid in order to seek a 6-lane community pool instead of a 4-lane pool at Palmer Park. The published specification required a minimum 4 lane community pool. The submission of the variant does not impact the overall procurement evaluation result and award recommendation. It does however allow the Committee to separately consider whether the contract awarded should include a 6-lane pool at Palmer Park instead of the 4-lane pool included in the main tender response.
- 4.25 To inform the leisure procurement process, a needs analysis was completed which looked at various options for facilities to a) replace those lost at Central Pool and Arthur Hill and b) meet overall water space requirements taking into account current facilities both in and near to the Borough boundary. It was from this analysis that it was concluded a new facility should be built at Rivermead and a 6 lane 25m community pool and learner pool provided at Palmer Park. However subsequent to that process the development of a new pool at Bulmershe added further local swim capacity. The published specification issued in January 2019 seeking a minimum 4 lane pool set (detailed in Appendix A) meets water space requirements.
- 4.26 Both bidders have submitted a variant bid, clarifying the additional capital and revenue costs as well as potential increased income.
- 4.27 The variant bid responses demonstrate that the extension of the pool requirements for Palmer Park comes with insufficient additional income benefit to cover the additional costs to develop and manage a larger pool. The financial implications of the variant bid from Bidder A are set out below within the financial section of this report.
- 4.28 The additional water space created by developing a 6 lane community pool would provide additional swim capacity within the Borough for local residents with the associated access benefits rather than having to travel out of the Borough. It is understood that the new Bulmershe facility will offer a 6 lane, 25m pool, teaching pool, large gym plus a four-court sports hall, studio space and a café.
- 4.29 The additional costs associated with a six lane pool as set out in the report are in excess of the provision set out in the MTFP but are considered affordable in the context of the emerging medium term financial strategy.

- 4.30 The view of Sport England, which is shared with officers, is that the delivery of a 4 lane pool meets the needs of the Borough taking into account the availability of pools accessible to Borough residents.
- 4.31 The additional land take required for a larger building would also create some planning and parking implications albeit it is only when the final detailed design is developed that the exact implications be known. Local Plan policy supports the principle of the development of a new pool at Palmer Park.
- 4.32 While the exact quantity is not known, the additional carbon implications of a 6 lane pool factor against its provision. It is considered that the bidders would still be able to meet the technical requirement of Breeam Excellent rating for either 4 or 6 lane pools but the change would extend the building footprint and carpark arrangements, increasing the carbon footprint of the new development to accommodate additional swimmers.
- 4.33 In officers' view the key matter relates to 'value for money' assessed by evaluating the financial costs of the provision against any balancing factors which justify it. There is no need for the additional water space and planning and environmental factors, including increased carbon implications, weigh against any benefits. For these reasons the officer recommendation is that the variant bid to develop a 6 lane pool at Palmer Park is rejected and the 25 year design, build, operate and maintain contract for Boroughwide leisure facilities is awarded on the basis of the original tender specification for a 4 lane pool at Palmer Park.

## **5. WAY FORWARD AND NEXT STAGES**

- 5.1 Should the recommendations set out in this report be endorsed the following key milestone dates would apply.
- Contract Award Decision - 20<sup>th</sup> Jan
  - Contract Finalisation - Feb 2020
  - New contract start- May 2020
  - Construction Commence - Dec 2020
  - New pool at Palmer Park open - Spring 2022
  - New Pool at Rivermead open - Summer 2022

### **Contract Management**

- 5.2 Following the award of the contract, the Assistant Director for Culture will take overall responsibility for clienting the contract. The contractor will report on its performance of the delivery of services in accordance with the agreed specification and against the performance standards. In addition, the Council will undertake its own monitoring of the services to ensure performance against set requirements and KPIs in the contract.

The services performance management process is summarised below:

- The Facilities Specification defines the specific facility maintenance, cleaning and repair standards which the Contractor is consistently expected to meet and report on. The Contractor will incur points should there be non-reporting, reporting issues and/or any issues identified which are not dealt with promptly. These points convert into financial service credits which can be claimed monthly by the Council. More persistent breaches of standards can be escalated through the governance framework with cost recovery from the Contractor possible where the Contractor has been at fault.

- The Service specification defines target indicators and performance measures linked to the following nine Council outcomes:
  - Improving health and wellbeing and reducing health inequalities
  - Providing local economic benefit
  - Ensuring local people have the skills to prosper
  - Supporting safe and inclusive neighbourhoods
  - Promoting community cohesion
  - Educating, protecting and providing opportunities for young people
  - Supporting and caring for vulnerable adults and older people
  - Providing high quality services
  - Sustainability/ environmental improvements.
  
- The Contractor is required to achieve or exceed performance measures that are defined in the specification. The Contractor will report performance on an 'Scorecard' which sets out a series of key performance target indicators linked to the Council's Outcomes.
  
- The Outcome Scorecard will be produced annually providing qualitative and quantitative evidence of how the contractor has performed to the Council's requirements defined in the Service Specification. The Scorecard will cover:
  - User Perspective
  - Internal Business Process
  - Continuous Improvement
  - Financial
  
- Outcomes' performance is linked to the contract which enables the Council to impose financial adjustments within the payment mechanism if the Contractor fails to fulfil their requirements (this is separate and in addition to the facilities service credits, detailed above). In addition to financial adjustments, there is also the mechanism for the Contractor to fall into default that could lead into either step-in and/or ultimately, the termination of the contract.
  
- In addition to the Scorecard, the Contractor is required to complete the following reports and work closely with the Council's contract management team to ensure all elements of the service are delivered in accordance with the Council's requirements:

Plan Title	Frequency
Outcomes Report	Annual
Outcomes Progress Update (including Outcomes Scorecard)	Quarterly
Quest Action Plan or alternative Quality accreditation	Biennial
Sports and Activity Development Plan	Annual
Sports and Activity Progress Update	Quarterly
Participation Progress Report	Quarterly
National Benchmarking Service Action Plan	Annual
Environmental and Energy Management Plan	Annual
User Feedback System Annual Report	Annual
Schedule of Programmed Maintenance	Annual
Grounds Maintenance Schedule	Annual
Event Management Plan	Annual

Plan Title	Frequency
Marketing Plan	Annual
Pricing Schedule	Annual
Proposals for changes to Minimum Opening Hours	Annual
Programmes of Use	Annual
Exercise on Referral (EOR) and Cardiac Rehabilitation Plan	Annual
Emergency Plan	Practice evacuations biannual

- 5.3 As referred to above, the contract contains provisions that mean, should the Council be required to step-in and/or ultimately terminate the contract due to a Contractor breach, the Council has the ability to reclaim costs, obtain costs for any re-procurement and be protected from any re-procured contract costs being higher for a suitable period of time..

#### **Hand Back Procedure**

- 5.4 The facilities operated throughout the contract term will consist of new and existing facilities of varying age and quality. The Contractor must maintain all the facilities to the standards and requirements established in the specification. The Contractor will at some point hand back facilities to the Council, either at the end of the contract term, or during the contract term if a change is implemented. Provisions with the contract ensure that the hand back of the facilities will be on a no better and no worse basis.

#### **Lease and open space disposal**

- 5.5 As a pre-condition of entering into the Lease the Council will be need to advertise the Lease as a disposal of open space under S123 of the Local Government Act 1972 in a local paper for 2 consecutive weeks. Any objections will need to be considered by a future meeting of Policy Committee for final decision.

### **6. CONTRIBUTION TO STRATEGIC AIMS**

- 6.1 Reading's future Leisure provision will contribute towards the achievement of the following Council Priorities:

- Securing the economic success of Reading
- Promoting health, education, culture and wellbeing

- 6.2 Reading's leisure services are to be developed in line with the following Council strategies and priorities:

- RBC Corporate Plan 2018-2021
- Reading Local Plan November 2019
- Get Berkshire Active 2017-2021 'Towards and Active Berkshire'
- Reading Health and Wellbeing Strategy 2017-202 Vision 'A healthier Reading'
- Berkshire West Healthy Weight Strategy 2018-2020
- RBC: Indoor sport and leisure facilities strategy 2015
- Reading JSNA

- 6.3 The Council will work with its new leisure partner in the delivery of key national and local strategic policies. It will also demonstrate that investment and action is making a positive difference to people's lives and show the impact the delivery of the leisure service is having on local individuals and communities and public health outcomes.

6.4 Whilst the town's culture and leisure opportunities are accessed by the vast majority of residents there are significant cohorts who face barriers to access. This can lead to increased levels of obesity and poorer health and well-being for both adults and children in respect of physical activity; and poorer quality of life, mental health, social isolation and well-being. Addressing these barriers and widening participation is a key outcome requirement.

## **7. COMMUNITY ENGAGEMENT AND INFORMATION**

7.1 In 2015 the Council produced an Indoor Sports facilities strategy (Needs Assessment). This highlighted local strategic outcomes that will be delivered through a partnership with leisure providers and other key stakeholders. This strategy involved, and took into account, consultation with 89 individuals and organisations, including facility users, clubs, facility operators, council officers and National Governing Bodies of Sport (NGBs).

7.2 The strategy aims to deliver the following key objectives which have been identified as common themes following research and stakeholders consultation:

- Protect and maintain strategically important existing facilities;
- Improve access to meet demand;
- Provide new facilities;
- Improve viability of facilities.

7.3 Accompanying the needs assessment, an Options Appraisal was undertaken which identified the mix and locations that facilities should be provided.

7.4 In addition to the needs assessment, support was provided by Sport England and information identifying levels of sporting/leisure provision was determined through their Facilities Plan Model which informed the 2015 options appraisal.

7.5 Following the report to Policy Committee in November 2016 clearly setting out the Council's intentions to upgrade the Borough's leisure facilities, a number of stakeholders communicated their aspirations for the quality and specification of new provision, including swimming, diving and basketball clubs. The aspirations of local clubs formed part of the information that bidders received and subsequently considered in developing proposals.

7.6 In 2019 the Council commissioned the production of a Strategic Outcome Planning Model (SOPM). This Planning Model reinforces and updates the research and findings of the 2015 Facilities Strategy. The development of the SOPM involves three elements of consultation, online questionnaire, face to face interviews and focus groups and reflects the standards identified in the leisure service specification.

### **Online Survey**

7.7 This was conducted in July and August 2019 to which there were 628 online survey completions. This research was designed to investigate attitudes and behaviour around physical activity and exercise in general. Further and more specifically, to find out the barriers to being active and what would encourage them to use Reading Borough Council leisure facilities in the future.

### **Face to Face**

7.8 Interviews were conducted within the centre of Reading. The sample was chosen to reflect the age, gender and occupational profile of the district as closely as possible and was selected as "those who have lived / worked in the area for at least 6 months". These were conducted concurrently with the online survey.

- 7.9 Six focus groups were held with under-represented groups during October/November to identify particular service/ facility requirements that the preferred bidder will be expected to address.
- 7.10 The draft Strategic Outcome Planning Model (SOPM) is attached as Appendix C. The model will be finalised and published in consultation with the Lead member for Health, Wellbeing and Sport.
- 7.11 In conclusion, consultation with key stakeholders has been carried out as part of the work to develop the indoor sports facilities strategy, including a range of sports clubs and operators. This consultation has also involved the Amateur Swimming Association (ASA) and Sport England to ensure that lead governing bodies for a variety of sports have been able to directly influence the strategy and are confident that it reflects their interests and input. Further consultation with stakeholders and the public will be carried out in developing the detailed proposals for replacement facilities once further initial feasibility work has been carried out.
- 7.12 Proposed new facilities at Rivermead and Palmer Park will require planning permission and be subject to statutory public consultation at the appropriate time.

## **8. LEGAL IMPLICATIONS**

- 8.1 The Council has power under the Local Government (Miscellaneous Provisions) Act 1976 to provide such recreational facilities as it thinks fit including the provision of buildings, equipment, supplies and assistance of any kind. The Council may make such facilities available either without charge or on payment of such charges as it thinks fit.
- 8.2 The Sport England contracts which are proposed to be used for the Council's leisure facilities were published in 2016 following consultation with local authorities and operators in the leisure industry. They have the benefit of being familiar to many external providers, they are comprehensive in the range of relevant issues they provide for and represent a balanced approach to management of the facilities.
- 8.3 The procurement process has been conducted in compliance with the Council's Contract Procedure Rules and in accordance with the Public Contract Regulations 2015 using the Competitive Dialogue Process. The criteria for use of the Competitive Dialogue Process were met by virtue of the Council not being able to fully define the best solution to meet its needs including not being able to objectively specify the legal and financial make-up of the contract.
- 8.4 The Council's contract is based upon the Sport England Design Build Operate and Maintain (DBOM) template, with some more significant changes to reflect that:
- there is a mixture of new build and existing facilities, that will have different maintenance and hand-back requirements
  - a process for planning permission to be secured by the successful Tenderer (Contractor) has been included in the project with scenarios where permission is not secured or secured late
  - a process is included to allow for provisional sums that cannot yet be established to finalise the cost for the new build works
  - there will be post completion works in addition to the main leisure centre works
  - the Authority's risk on significant capital expenditure arising during the course of the contract is limited



- 8.5 The successful Tenderer's bid-back positions shall be included in the Council's contract and all cross referencing, clarification, checking, and proof reading of the legal documents to produce a final draft of the Contract shall be completed at preferred bidder stage.
- 8.6 At this stage of the process, both bidders submissions are confidential by virtue of Regulation 21 of the Public Contracts Regulations 2015:
- 8.7 At its meeting of 25<sup>th</sup> May 2016 (Minute 10 refers) The Head of Planning Development and Regulatory Services was given Delegated Authority to enter in to lease agreements with a rental value of less than £50,000 pa. The Council will advertise the loss of open space under S123 of the Local Govt Act 1972 in a local paper for 2 consecutive weeks

## **9.0 HUMAN RESOURCE IMPLICATIONS**

### **Transfer of Employees (TUPE) to Bidder A**

- 9.1 This Procurement will be subject to the transfer of employees under the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE") as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014. The application of TUPE will always be a matter of law. The Council has assisted bidders by making TUPE information available.
- 9.2 TUPE arrangements would be a workstream for due diligence during preferred bidder stage. Both the Council and the preferred-bidder will undertake due diligence to assess the potential impact on staff potentially transferring and will undertake a consultation with the staff and trade unions.
- 9.3 Pension liabilities are still to be considered for any staff transferring out of the Council and would be subject to the agreement of the Pensions Authority.
- 9.4 On service commencement, relevant Council employees who are identified within the range of services to be delivered will transfer to Bidder A under TUPE. TUPE protects and preserves continuity of employment and terms & conditions of service for staff who transfer to a new employer. However, any proposed changes by the new operator will be discussed with employees during the formal consultation meetings.
- 9.5 An admissions agreement between Bidder A and Berkshire Pension Fund will be made prior to transfer and is a key part of the project delivery
- 9.6 It is planned to conduct two rounds of formal consultation with all staff, this will be arranged with Bidder A. In the interim, staff briefings will also be held.

## **10. EQUALITY IMPACT ASSESSMENT**

- 10.1 In addition to the Human Rights Act 1998 the Council is required to comply with the Equalities Act 2010. Section 149 of the Equalities Act 2010 requires the Council to have due regard to the need to:-
- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
  - advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

10.2 An Equality Impact Assessment has been undertaken on the proposals and recommendations set out in this report. This is attached as Appendix F. There may be an impact on some individuals within some protected groups. However, a range of initiatives are identified to increase accessibility to, and use by, each protected group as a whole. There are important inequalities in the amount of physical activity achieved between different communities which are likely to impact on future health and wellbeing. The overall aim of the procurement is it to increase use by all groups and reduce inequalities.

## 11. ENVIRONMENTAL IMPLICATIONS

11.1 The current leisure facilities are ageing and do not have the benefit of being built to modern standards including current energy efficiency standards. Bidder A has committed to developing the replacement leisure centre at Rivermead and the new pool at Palmer Park to BREEAM Excellent standards and their ISFT submission sets out an initial pre-assessment document for obtaining BREEAM Excellent accreditation.

11.2 Bidder A has also committed to use some renewables to achieve building control compliance, as well as to consider a full range of renewables, possible examples include:

- CHP - Combined Heat and Power
- PV - Photovoltaic panels
- Fabric upgrades to improve environmental performance (including triple glazing)
- Micro filtration pool
- LED lighting
- Other renewable forms are available such as solar thermal for heating water and wind to produce electricity
- Air tightness is as important as thermal performance

11.3 Bidder A has also committed to focus on a number of measures which will help to reduce carbon emissions and improve environmental efficiency, including;

- Where appropriate sustainable urban drainage system (allowing surface water to percolate through to the earth below) will be used.
- Air source heat pumps
- Green travel option
- Improve recycling rates (reaching 50% by the end of 2020)
- Development and deliver a Green Strategy.
- A commitment to use Green Guide as the basis for material selection - this looks at the environmental impact each of the materials have from climate change and carbon footprint to ensure they are responsibly sourced.

## 12. FINANCIAL IMPLICATIONS

12.1 The financial implications arising from the proposals set out in this report are set out below:-

### 12.2 Revenue Implications

12.3 The current (2019/20) revenue budget for running the four leisure centres is £703k (excluding contributions to historic pension deficit liabilities that would remain with the Council) plus £100k for building maintenance costs held separately - £803k in total.

- 12.4 The costs of awarding the contract to the preferred bidder (including capital financing costs incurred by the Council in providing the finance for the re-provisioning of facilities vary over the short and medium term as capital expenditure is incurred and new facilities come into operation and expected usage (income) increases thereafter. Over the first five years of the proposed contract (starting in April 2020), and five-yearly averages thereafter over the twenty five year life of the contract, the total revenue cost to the Council are set out in the table below:

Contract Year	Financial Year	2019/20 Budget (£,000's)	Total Cost to Council (£,000's)	Variance to 19/20 Budget (£,000's)
Year 1	(2020/21)	803	1,303	500
Year 2	(2021/22)	803	1,178	375
Year 3	(2022/23)	803	439	(364)
<b>New MTFs Period</b>		<b>2,409</b>	<b>2,920</b>	<b>511</b>
Year 4	(2023/24)	803	840	37
Year 5	(2024/25)	803	971	168
<b>First Five Years</b>		<b>4,015</b>	<b>4,731</b>	<b>716</b>
Year 1-5 Avg		803	946	143
Year 6-10 Avg		803	282	(521)
Year 11-15 Avg		803	254	(549)
Year 16-20 Avg		803	39	(764)
Year 20-25 Avg		803	(377)	(1,180)
<b>Whole 25yr Life</b>		<b>20,075</b>	<b>5,721</b>	<b>(14,354)</b>

- 12.5 The above net revenue cost to the Council and budgetary gap includes an assumption that Public Health service contributions (£100k in 2020/21; £200k in 2021/22 and £450k by 2022/23) will be allocated to the service budget in support of improving health and well-being delivered through this procurement.
- 12.6 Work has been undertaken to assess the value for money of retaining the service in-house. Consultants with strong experience of similar leisure procurements advising the Council throughout this process, advise that without the national marketing experience and corporate resources, an in-house option would be likely to deliver around £600k per year less in income from usage when the newly provisioned facilities are fully on-stream. The consultant advises that higher staffing levels and rates would additionally add around £650k to an in-house solution when operating at full capacity, although clienting costs of managing the contract would be in the region of £60k per year lower. The preferred bidder, operating under charitable status, would also be able to claim charitable relief on their business rates liability, which the Council is unable to take advantage of under direct service provision. Overall, the above factors would suggest an in-house provision would cost in the region of £1.7m extra per annum to run when all centres are fully operating and re-provisioned.
- 12.7 Whilst the tendered bids represent a contractual commitment by the bidder to meet the required management fee charge (or net contribution), a number of risks may impact on the revenue implications set out above. Potential cost overruns may be chargeable to the Council if a successful bidder is able to demonstrate it was beyond the control of themselves (for example if ground condition surveys have failed to identify significant issues). Such additional capital expenditure would impact on the revenue capital financing costs. Any delay in delivering the new facilities would however have the impact of delaying the year when such financing charges impacted on the Council's revenue budgets (but would likely impact on when the facilities were

available for residents use). Whilst the management fee or contribution is fixed for each year (subject to annual inflationary increases) at the outset of the contract, any significant shortfall in expected usage and income may impact on the ability of the bidder to profitably maintain the standards of service set out in the contract.

### Capital Implications

- 12.9 The Council will be investing capital resources into re-provisioning or refurbishing the four leisure centres as well as periodically undertaking capital improvement and equipment replacement works. The table below sets out the capital expenditure requirements for the first three years (the main period in which centres are replaced or significantly refurbished) as well as future capital investments requirements over the remaining twenty two years of the contract period:

	Years 1-3 (£,000's)	Future Years (£,000's)	Total (£,000's)
Rivermead	22,579	2,063	24,642
Palmer Park	10,249	1,880	12,129
Meadway	1,242	1,529	2,771
South Reading	859	1,874	2,733
	<b>34,929</b>	<b>7,346</b>	<b>42,275</b>

- 12.10 The revenue costs (interest and minimum revenue provision charges) of financing the above capital expenditure by the Council are built into overall revenue costs included in the table below paragraph 12.4. The capital financing costs increase significantly once the Rivermead facility becomes operational (expected by the start of 2022/23) when MRP becomes fully chargeable - rising from £375k in 2021/22 to £1,208k in 2022/23 and then £1,891k by 2024/25.
- 12.11 In determining the capital financing costs it is assumed that c£1.5m of Sport England grant funding will be made available to fund an element of the Rivermead replacement costs.
- 12.12 The Council's emerging budget and capital programme which has been subject to public consultation aligns with the financial implications set out in this report.

#### Variant bid to develop a 6 lane pool at Palmer Park.

- 12.13 The additional capital costs of providing a six lane pool at Palmer Park are £955k for Bidder A. These increased costs impact on the Council's capital financing costs (interest and MRP) increasing the average annual cost to the Council by £64k.
- 12.14 In addition to the Council's own capital financing costs, the provision of enhanced facilities at Palmer Park increases the contractor's running costs and income they expect to derive from the facilities. Bidder A has increased their overall net management charge to the Council by £27k. Taking both the capital financing costs and net management fee together, the average Annual Cost for Bidder A represents £64k per annum additional cost compared to their originally evaluated submission albeit these average annual increases are not uniform in each year.
- 12.15 The additional cost as identified in the above would be affordable within the overall Draft MTFs being funded from marginally higher than expected RSG allocation (£32k) announced in December 2019 and the use of risk and contingency provision

## 13. BACKGROUND PAPERS

- Reading Borough Council Indoor Sports Facilities Needs Assessment - The Sports Consultancy, October 2015.
- Options Appraisal and Feasibility Study for the Development of Leisure Centres Across the Borough - The Sports Consultancy, October 2015.
- Policy Committee - 2 November 2015 - Review of Leisure Facilities and Future Provision.
- Policy Committee - 31 October 2016 - Review of Leisure Facilities and Future Provision.