



REPORT TO EXECUTIVE

**PORTFOLIO AREAS: HEALTH AND WELLBEING
FINANCE AND RESOURCES**

Date of Meeting: 02 September 2002

~~Private~~ Not for publication by virtue of paragraphs 7, 8,9 of part of Schedule 12-a of the Local government act 1972.

Key Decision: No

Recorded in Forward Plan: Yes

Inside Policy Framework

Title: LEISURETIME EXTERNALISATION
- CAPITAL INVESTMENT OPTIONS

Report of: THE CITY TREASURER

Report reference: Financial Memo 2002/03 No 45

Summary: This report sets out the investment options open to the Council.

Recommendations:

1. The Executive decide which bid be pursued out of the 3 submitted by Carlisle Leisuretime Limited (shadow):
 - ♦ Revenue Only -- No Capital Investment
 - ♦ Revenue & Capital – Capital Funded by the Contractor
 - ♦ Preferred Bid --Capital Funded by City Council
2. If a capital investment option is to be pursued it is recommended that the Executive decide which option they wish the officers to provide a further report on:
 - ♦ 'New Build'
 - ♦ Refurbished works
 - ♦ Mixture of New Build and Refurbishment

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

3. The Executive agree in principle to recommend the earmarking of sufficient capital receipts and the transfer of funds from reserves to the Large Projects Fund to facilitate the funding of the works.
The more detailed report will advise of the detailed amount estimated to be required and the resources available.
4. The Executive ask officers to provide a further report detailing up to date estimates of the works that are chosen to be progressed and that the actual costs and savings compared to the existing budget are ascertained and reported.
5. The Executive ask officers to report on the issue of the Development Agreement.
6. The Director of Leisure & Community Development report back on the period of the contract that is to be applied.

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1. BACKGROUND INFORMATION AND OPTIONS

- 1.1 On the 2 July 2002 the Community Overview and Scrutiny Committee (Report LS 18/02) approved the recommendation that Leisuretime NPDO be selected as the preferred partner for the future operation of the Sands Centre, the Pools and the Outdoor Recreation facilities as defined. Council on the 16 July approved the Community Overview and Scrutiny Committee's recommendation.
- 1.2 The financial evaluation demonstrated that Leisuretime NPDO can deliver the greatest reduction in revenue costs and at the same time provide the required capital investment. Alternatively the Council could chose an option proposed by Leisuretime under which the Council provides the capital investment in exchange for a greater revenue reduction. Both options produced better financial benefits than any from the alternative bidders.
- 1.3 The Committee approved the recommendation for officers to report further on the financial options identified. This report provides the information required to consider which of the revenue and capital investment options presented by the preferred partner should be pursued.

2. THE CAPITAL WORKS INCLUDED IN THE LEISURETIME BIDS

- 2.1 Bidders were all invited to submit 3 bids.
- ◆ Revenue Only
 - ◆ Revenue and Capital
 - ◆ Preferred
- 2.2 Appendix 1 provides a detailed analysis of the bids that the Leisuretime NPDO submitted. The table below summarises the potential annual revenue savings that may accrue from each option during the 15 year contract period:

	Revenue No Investment	Revenue & Capital Contractor Funded	Preferred Council Funded Investment
2002/03 Budget	£1,647,270	£1,647,270	£1,647,270
Implication of Tender on future Budget Requirement Cost of Capital	£1,384,890	£1,505,884	£1,331,300 £ 70,000
Saving	£ 262,380	£ 141,386	£ 245,970

- 2.3 The budget requirement figures in 2.2 above are indicative only and have yet to be finalised.
- 2.4 The Revenue option is shown here for completeness, whilst it produces the largest saving to opt for that would not obtain the key aim of capital investment needed to improve the facilities.
- 2.5 The capital works involved are as follows:

Location	Detail of Works	Estimated Cost 2001/2 prices	2002/3 prices (+3%) Est.
Sands Healthy Living Centre	Extend Gym	£201,000	£207,030
Sands Restaurant	Extension and Repartitioning	£105,000	£108,150
Sands -New Entrance	Extended mezzanine floor and lift to upper floor	£173,000	£178,190
Sands – Renew Main Seating (Approx 1000)	New –	£274,000	£282,220
	Or Refurbish -	£105,000	£108,150
Pools - Extend Vending Area	Rooftop conservatory	£63,000	£64,890
Stoney Holme-Pavillion	Rebuild	£550,000	£566,500
	Or Refurbishment	£225,000	£231,750
Total Expenditure if new		£1,366,000	£1,406,980
Total Expenditure if partially refurbished		£ 872,000	£ 898,160

- 2.6 The above figures are the class 1 estimates (as at 2001/2 prices) that were provided via the City Councils Building and Contracted Services Unit. They were costed as set out in the Best Value Improvement Plan and incorporated in the Tender Specification. They have been uplifted by 3% to 2002/03 price totals. Confirmation regarding the costs that will actually apply at the time of the commencement of the works will be required to account for the actual inflation since

the original class 1 estimate was provided and the prevailing construction industry climate.

- 2.7 The tender price submitted by Leisuretime under the preferred option includes taking account of the income generated by the Healthy Living Centre works. The tender price contains a reduction equivalent to the cost of the capital works (£201k) over the lifetime of the contract. If this work were not carried out the tender price relating to the preferred option would require reviewing.
- 2.8 The above table, in paragraph 2.5, sets out options for the 'new build' & refurbishment in respect of the works to be done at certain locations. Whilst the refurbishment is £508,820 less, whether it will produce the aim of the investment requires consideration. The aim of the investment in the seating is to improve customer satisfaction. The question 'will refurbishment produce that?' needs to be considered.
- 2.9 Appendix 2 provides an analysis of the Capital Costs included in the Leisuretime Revenue and Capital Costs Bid. The total included for the above work is as follows:

Building & Management Costs	£1,697,897*
Cost of Financing	<u>£ 462,450</u>
Total Proposed Charge	<u>£2,160,347.</u>

*The Leisuretime NPD used the class 1 estimate as a basis and added estimates for inflation, VAT, Project Management and Administration costs.

- 2.10 Four options are available to the Council with regard to capital investment.
- ♦ The Council could fund the capital works (all new) at an indicative cost of £1,406,980
 - ♦ The Council could fund the capital works (refurbished) at an indicative cost of £898,160
 - ♦ The Council could fund the Sands and the Pools works on a 'new' basis (£840,480) and (say) the Golf Pavilion on a refurbished basis (£232,000) giving a total cost of £1,072,480..
 - ♦ The Council could accept the Leisuretime Revenue and Capital Bid that includes amounts relating to the capital works (all new) at an indicative cost of £2,160,317.

2.11 The Leisuretime NPDOs Preferred Bid provides the option for the Council to fund and carry out the capital works. This would involve a considerable amount of input from the Council both in the short term and the longer term. Ultimately the works agreed should become part of a Development Agreement. This in itself is a timely task and it is unlikely to be completed before the target date of transfer ie by the 2 November. The next report should also contain more information regarding this aspect.

2.12 The price provided takes account of the contractor's estimate of the effect the improvements would have on the revenue income and expenditure profiles. Capital expenditure is not part of the price. This option would provide an annual, revenue saving of £245,970 (inc. cost of capital) as opposed to £141,386 if the Revenue and Capital option, which does include capital expenditure were chosen - a betterment of £104,584 p.a..

Because the price has been based on all the work above being completed, should the actual programme or timetable approved differ from the specification the income and expenditure profiles and the tender price submitted would require revisiting.

2.13 It is likely that if the NPDO were to carry out the capital works, the Council would be required to act as guarantor for their borrowings. One object of requesting that the contractor fund and carry out the works was to transfer the risk. If the Council were required to act as guarantor that risk would not be transferred, whilst the funding cost to the contractor will be greater than to the Council. If the risk is not transferred it would not be in accordance with the tender documentation and is therefore not considered to be an option.

3. Savings

3.1 The savings estimated as occurring are presented as annual averages. The actual amounts saved will differ annually during the 15 year life of the contract. Appendix 1 sets out the amount actually due to be paid to the contractor in the first year. (If an average were not taken an Appendix for each of the 15 years for each of the 3 options would need to be provided.) Once the decision regarding the investment option has been made the actual savings anticipated for each of the 15 years will be produced for that option. The figures now presented provide an indication of the different levels of saving for each option without the detailed actual savings. That would also entail further work to be carried out in relation to the cost of the capital works. This can also be carried out once the capital investment decision has been made. Certain items of equipment may be leased. This will all be clarified in the next report.

- 3.2 The annual revenue budget saving have been offset by the loss of interest (circa £70k per £1.4m per year). The opportunity cost of the utilisation of resources in this way rather than any other, should be recognised.

4. Funding

- 4.1 Should it be decided that capital works are carried out the City Treasurer advises that the investment be financed from capital receipts and revenue reserves and that that any amount to be financed from revenue reserves should be transferred to the Large Projects Fund, to be released subsequently as and when the investment takes place, together with the earmarked capital receipts.

5 Length of Contract

The aim of the externalisation was to obtain savings and capital investment. Due to it being necessary to attract bidders willing to invest, the contract period was set at 15 years. It would take time and commitment to generate the investment and gain returns from it.

As the choice of preferred partner and their preferred option involves the Council funding the investment, the City Treasurer advises that the time-scale be reviewed should that option be approved.

This may be considered as part of the next report that the Director of Leisure & Community Development presents regarding the externalisation process.

6. STAFFING/RESOURCES COMMENTS

Not applicable

7. CITY TREASURER'S COMMENTS

Contained within the report.

8. LEGAL COMMENTS

In considering the way forward, the Executive need to make sure that any option to be pursued further is within the scope of the original brief and invitation to tender in respect of which all tenderers submitted proposals.

9. CORPORATE COMMENTS

Not applicable.

10. RISK MANAGEMENT ASSESSMENT

The Director of Leisure and Community Development is maintaining a Risk Assessment Document.

11. EQUALITY ISSUES

Not applicable.

12. ENVIRONMENTAL IMPLICATIONS

Not applicable.

13. CRIME AND DISORDER IMPLICATIONS

Not applicable.

14. RECOMMENDATIONS

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15. REASONS FOR RECOMMENDATIONS

To progress the Leisuretime externalisation process.

Douglas Thomas, City Treasurer