

Agenda item:

**Decision Maker:** Cabinet 8<sup>th</sup> December 2016  
City Council 13<sup>th</sup> December 2016

**Subject:** New Sports and Leisure Contracts - Prudential Borrowing Requirement

**Report by:** Director of Finance & Information Services (s151 Officer)

**Wards affected:** All

**Key decision (Over £250k):** Yes

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## 1. Purpose of report

1.1. This report seeks approval for a capital scheme to be added to the Capital Programme approved by the City Council on 9<sup>th</sup> February 2016. This will enable various capital investment works and major repairs to the city's Sports and Leisure facilities to be undertaken after the commencement of the new Sports and Leisure contracts for which BH Live have recently been awarded preferred bidder status.

## 2. Recommendations

2.1. That the following be approved:

- i. The currently approved Capital Programme 2015/16 to 2020/21 is updated to include the capital scheme "Sports and Leisure Facilities Investment" at an estimated cost of £2.4m.
- ii. Following completion of a comprehensive financial appraisal, approved by the Director of Finance & S151 Officer demonstrating that the additional reduction in cost arising from the investment can significantly exceed the associated borrowing costs over the life of the contract, that the cost of the scheme be financed from Prudential Borrowing.

## 3. Background

- 3.1. On 3rd December 2015 Cabinet approved the "re-procurement" option for the Mountbatten Centre and other Leisure Sites Management Contracts for the provision of these facilities.
- 3.2. The target contract start date is 1<sup>st</sup> February 2017 and a project team was formed in early 2016 to facilitate this.

- 3.3. The procurement project had a number of objectives including:
- A review of the current contractor operation in order to develop a comprehensive understanding of existing delivery methodology
  - Development of a full understanding of the current contractual relationship with the incumbent operator
  - An assessment of the current and future requirements for sports and leisure facilities in Portsmouth
  - To have a clear understanding of the role Public Health plays in the provision of leisure facilities
  - An improvement in current service outcomes and an enhanced financial offer to the Council
- 3.4. Following the advertisement of the contract to operate 6 of the City's Leisure facilities, a number of high quality bids were received. Each bid was comprehensively evaluated using criteria previously set out by the Council. As a result of this evaluation, BH Live were selected as the preferred bidder. BH Live consistently scored highly across all areas of the bid assessment criteria, and the Council was particularly impressed by their exciting development proposals for the facilities and the highly competitive and flexible membership packages that they proposed.
- 3.5. The new contract is expected to provide considerable savings from 2018/19 onwards compared to current budgets whilst improving both the level of participation, and the overall customer experience.
- 3.6. The successful bidders offer included the financing costs of their investment proposals assuming PCC undertook the borrowing to enable various building alterations including the following:
- Wimbledon Park Sports Centre - Health and Fitness Extension
  - Mountbatten Centre - Improvement works to Entrance and Reception Area and Terrace Café, Soft Play and Multi Use Rooms. Provision of a Clip and Climb Facility
  - Significant Maintenance items including: Gym Centre car park replacement, Wimbledon Park Sports Centre internal and external redecoration and Mountbatten Gym Centre floor replacement

- 3.7. It is clear from the tender return that providing £2.4m of capital investment into the assets would result in a significant reduction in the management fee. This reduction is expected to more than cover the cost of repayment of the loan over the 10 year life of the contract.
- 3.8. The initial contract term with the new operator is ten years. The repayment term of any Prudential Borrowing approved will be consistent with this contract term.
- 3.9. As the savings associated with the investment are more than expected to cover the repayments and interest costs of the loan and because the City Council can borrow more cheaply than if BH Live finance the building enhancements, it is recommended that:
  - the City Council adds the proposed scheme to the currently approved Capital Programme and
  - the cost of the scheme is financed from Prudential Borrowing.

#### **4. Equality impact assessment (EIA)**

- 4.1. An equality impact assessment is not required as the recommendations do not have a negative impact on any of the protected characteristics as described in the Equality Act 2010.

#### **5. Legal Implications**

- 5.1. Section 1 of the Local Government Act 2003 provides the City Council with a wide power to borrow for *any purpose relevant to the authority's functions and for the purposes of the prudent management of its affairs*; this is provided it can afford to service the debt. The risk exposure has been assessed during the tender process. As such, the agreed financial model at financial close will be reflective to ensure the secured income for the City Council throughout the ten year term covers the cost of servicing the debt.

#### **6. Director of Finance's comments**

- 6.1. The evaluation undertaken to appraise the tender returns, which resulted in the award of preferred bidder status to BH Live, included an analysis of proposed capital investment. It was clear that the return to the Council (in the form of reduced management fees) arising from the investment would more than cover the cost of repayment and interest on the loan.
- 6.2. Before entering into any financial commitment, the Council will require the completion of a robust and detailed financial appraisal approved by the Director of Finance & S151 Officer, that has proper regard to the following:

- The relevant capital and revenue costs and income resulting from the investment over the whole life of the asset.
- The extent to which the investment is expected to deliver a secure ongoing saving.
- The level of expected return on the investment.
- The payback period of the capital investment.

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**Signed by: Chris Ward:**  
**Director Finance and Information Services (s151 Officer)**

**Appendices: none**

**Background list of documents: Section 100D of the Local Government Act 1972**

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

| <b>Title of document</b>   | <b>Location</b> |
|--|-----------------|
| Sports and Leisure Centres Strategic Contract Review (Cabinet 3 <sup>rd</sup> December 2015) | web             |

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the City Council on 13<sup>th</sup> December 2016

Signed .....