

Sport and Physical Activity: Findings from Market Engagement **August 2014- November 2014**

The SPA project team: Andy Spriggs (SPA Commercial Lead), Magdalena Kosowska (SPA Project Manager), Cassie Bridger (GLL Contract Manager), Rachel Wells (Public Health Consultant), Garrett Turbett (Public Health Consultant), Elizabeth Stavreski (Procurement), Chris Dawson (Procurement)

Suppliers: Aquaterra, Everyone Active, GLL, Fusion, 1 Life and DC Leisure

The Sport and Physical Activity (SPA) team met with leisure suppliers (Aquaterra, Everyone Active, GLL, Fusion, 1 Life and DC Leisure) as part of the soft market testing. The meetings took place in two waves. The first wave aimed to answer core SPA questions around zero-subsidy, preferred procurement approach and the likelihood of achieving a cost neutral position from day one of the new contract. The later meetings were focused around testing Public Health outcomes and the initial sketch of the facilities mix for all five leisure sites. Outcomes from the soft market test are presented below.

Zero-subsidy

All suppliers confirmed that zero-subsidy is achievable from day one of the new management contract. Some leisure providers suggested that Barnet's leisure portfolio has a potential for not only a cost neutral contract but also a form of income share agreement.

All suppliers expressed that achieving zero-subsidy depends on the levels of available funding. If the council is not able to provide any funding this means that the contract would have to be procured on a longer term basis, 25-30 years to allow suppliers recover their investment. Lack of funding would also mean that procurement would have to choose a DBFO (Design, Build, Fund and Operate) route. This would reduce portfolio attractiveness and would limit the number of bidders; currently only 2-3 companies have the financial capability of bidding for this type of project.

Asset transfer

Asset transfer does not appear to be a popular option in the leisure industry. Suppliers would normally recommend this option to local authorities that are not able to secure any funding and have a portfolio that has reached the end of its natural life. Swindon Council was mentioned by a few suppliers as a recent example of a council that conducted asset transfer on such a large scale; however, suppliers were unable to comment on the success of the scheme.

Furthermore, transferring assets to an external party requires a lot of flexibility from the council, i.e. pricing is market led. Public Health outcomes would be difficult to address due

to flexibility constraints. If the council was to transfer its assets operators suggested commissioning a separate PH contract running alongside the asset transfer lease.

The asset transfer option appears to be only viable if the council is not able to secure the capital investment.

Contract length

The length of the future management contract will depend on levels of capital investment the Council is able to provide. The length of a typical management contract is 10-15 years with a break out clause at year 10 or 10 years with an optional 5 year extension. In a situation where there is no funding available the minimum term is 25-30 years.

Procurement

Soft market test found that most operators were not in favour of DBOM and competitive dialogue (CD). Competitive dialogue, often associated with DBOMs, is considered to be time and resource intensive and would normally be recommended if the council did not have a clear vision of what it wants from its leisure centres. One supplier suggested that CD would help to drive innovation, which in light of a strong Public Health agenda could bring substantial benefits. Suppliers also flagged up that going in to CD discussions without a clear vision could mean that the council would end up with the outcome most beneficial to the operator opposed to the council.

General consensus was that a DBOM would reduce the portfolio's attractiveness and would limit the number of bidders; currently only 2-3 companies have the financial capability of bidding for this type of project. Some operators suggested that the council may end up with 1 operator bidding for the project.

Suppliers provided examples of successful procurements where local authorities took sole responsibility for the D&B. For instance, Westminster Lodge was designed by the council without any input from the operator. The leisure centre is currently operating on cost neutral basis, bringing the St Albans council an annual income of c. £800K. Everyone Active, which is currently managing the leisure centre, did not have any reservations to its design. However, if the council decided to take full ownership of the D&B of new leisure centres they strongly recommend getting an architect with experience in designing leisure centres. All suppliers agreed that their wealth of experience in managing leisure centres should be utilised as part of the design stage of the new builds; reducing the risk of maintenance and functionality issues while maximising potential revenue streams.

The Project team found that in 2014-2016 there will be at least ten live procurements, including three London boroughs (Southwark with newly developed leisure centres, Croydon and Havering) and Birmingham with over 30 leisure centres. This means that operators will have to 'cherry pick' projects and will only bid for the most attractive, lower risk and most financially viable options. Therefore, it is critical to make the SPA procurement as attractive as possible to ensure high levels of competition. This means clarifying 'big' questions, such as capital investment requirements and public health outcomes before the process begins.

The SPA team also examined various procurement evaluation options, including the ideas of a mystery shopper and running a public health programme. Operators welcomed the idea of running a more interesting and innovative procurement. General consensus was that focusing the evaluation on qualitative (public health) assessment would help differentiating between leisure providers. However, concerns were raised around weighting of the qualitative and quantitative elements, suggesting the council needs to give more thoughts into this idea to ensure the process does not end up focusing on price. Some operators raised a concern that GLL would be in a much stronger position to run, for instance, a locally based weight management clinic because they already have well established relationships with various organisations.

Public Health

The market engagement process enabled the testing out of the concept of organising the leisure contract along the line of the public health focused outcomes. It was possible to check how acceptable this might be with providers, what issues might arise and what the potential solutions could be.

There was an opportunity to discuss the plan to use the structure of the public health domains and explain the vision for a leisure contribution to wider outcomes. Further meetings showed that there was a sense that health and wellbeing was increasingly part of the core business of leisure providers.

One of the key issues has been that until now many public health interventions have been planned as add on to existing contracts, therefore being an income stream, though often the programming is free to the target audience. The difference in this approach is that a whole systems approach would need to be incorporated from the beginning, this would mean targeted interventions under one or more of the domains, designed by the provider, but not necessarily free to the end user, though they may still be subsidised, unless there was a later or subsequent agreement to fund additional contributions from the provider by another funder.

Despite this, the providers were still positive about the potential to design the contract in this way. They felt that there would be opportunities for business development, increased

membership, other wellbeing services etc., and these might be offset by other activities where the benefits were not realised immediately-outreach for example.

The market engagement exercise highlighted the expertise and knowledge in this sector was extensive and that there were clearly providers who understood the purpose and point of the direction in which we are intending to travel, so although challenging, it was suggesting that the public health outcomes focused contract was entirely feasible.

Parks

Suppliers did not seem to be interested in managing parks and open spaces as part of the SPA contract. They also did not think that including Parks in the SPA tender would make it more attractive to potential bidders. One leisure provider runs an informal initiative, called 'Green Outdoors', which utilises outdoor spaces during spring/ summer time to run classes such as yoga. The general feedback was that exercising in parks and outdoor spaces could facilitate achieving PH outcomes and could be included in the tender as an option to help differentiating between providers. The downside of passing responsibility of managing parks and open spaces to leisure centre providers is that they do not have the right level of expertise and they would subcontract it to a third party provider resulting in a higher cost to the council.

Trust

Trust for all leisure sites and Copthall area were discussed during the meetings. Although creating a trust would increase control over the management of the sites the council would be financially and commercially exposed. If the trust was only created for the Copthall area it is running a risk of having two leisure operators in the borough. This would mean that end users would be affected and could be exposed to two different leisure offers and pricing strategies, potentially jeopardising delivery of the public health outcomes. The council would lose out on breadth of experience and knowledge that bigger and more established Trusts have. Bigger Trusts, such as GLL, benefit from various revenue streams and economies of scale.

General consensus was that the zero-subsidy is not achievable if Barnet decides to set up a trust.

Facilities Mix

Overall the initial facilities mix was considered reasonable. Reiterating comments include:

- Church Farm gym space appears undersized
- too much water space in Copthall: rethink the configuration of the facilities
- build smaller consultation /multi-purpose rooms open to individual/or group sessions
- consider crèche/soft play at Copthall
- focus on family friendly design (changing rooms, soft play)
- cafe- would only recommend having a cafe in a busy leisure centre with larger footprint and a swimming pool; in smaller leisure centres merge cafe with the reception area; very small footprint only use vending machines