

MAIDSTONE BOROUGH COUNCIL

RECORD OF DECISION OF THE CABINET

Decision Made: 24 January 2024

Maidstone Leisure Centre

Issue for Decision

To seek approval for the contract extension terms, having considered these against the other options available as outlined in the report.

Decision Made

That:

1. The current proposals from Maidstone Leisure Trust and Serco Leisure for a contract extension be noted;
2. The leisure services contract for Maidstone Leisure Centre, Mote Park Outdoor Adventure and Lockmeadow Health Club for the period August 2024 onwards be extended for a period of five years, with up to three one-year extensions thereafter;
3. Delegated authority be given to the Director of Finance, Resources and Business Improvement, in consultation with the Cabinet Member for Communities, Leisure and Arts, to finalise details of the contract extension;
4. An additional £250,000 for minor capital improvements be included in the capital programme;
5. £1,000,000 for bringing forward plans for a new or refurbished leisure centre be included in the capital programme, with a view to a final decision on the way forward by August 2026; and
6. Delegated authority be given to the Head of Legal Partnership to negotiate, execute and complete all necessary agreements, deeds and documents arising from or ancillary to the decisions.

Reasons for Decision

The Council's Leisure Centre is operated under a contract with Maidstone Leisure Trust, which is an independent not-for-profit community benefit society. By contracting with MLT, Maidstone Borough Council has access to significant tax exemptions and other benefits. The Trust is comprised of several volunteer trustees, all of whom have an active interest in sport and active leisure in the

borough of Maidstone. Day-to-day running of the leisure centre is carried out by Serco Leisure who operate as the agent for MLT to enable the Trust to fulfil the obligations of the leisure centre contract. Beyond the leisure centre, MLT supports sport and active leisure locally with grant funding for sports clubs and individuals. This contract expires in August 2024.

Under the terms of the contract set in 2008, the council pays £630,000 from its annual revenue budget on capital repayments for the 2009 leisure centre enhancements and the ongoing capital renewals at the centre for the period 2010 to 2024. The council receives £200,000 in its annual revenue budget for the management of the leisure centre and £90,000 for Mote Park Outdoor Adventure together with a 33.33% share of the net surplus.

In February 2023 Cabinet resolved that it would advance minor practical improvements to the leisure centre amounting to £2 million and pursue a contract extension with MLT and Serco Leisure Ltd for the continued operation of the leisure centre and Mote Park until 2031.

Since the meetings of the Economic Regeneration and Leisure Committee and Cabinet in February 2023, the council has acquired Lockmeadow Health Club and central Government has announced capital funding for swimming pool upgrades to combat the rising cost of managing public swimming pools. These two new factors have been integrated into the contract extension talks and into the council's plans.

As reported to the Communities Leisure and Arts Policy Advisory Committee in October, discussions and negotiations have been held with MLT and Serco Leisure over the course of 2023 about a contract extension. These included incorporating the delivery of the minor practical improvements aspects as part of the agreed extension. It also builds upon the experience Serco Leisure has of delivering similar cost-saving and income-generating schemes in other leisure centres, and helped the council submit a bid to the Sport England Swimming Pool Support Fund. The outcome of that bid is still unknown at the time of writing.

It is envisaged that the contract, if extended, would continue to include the Lockmeadow Health Club, which has been operated under the leisure services contract, and shares the same termination date as Maidstone Leisure Centre, since June 2023.

Since the previous report to the Policy Advisory Committee in October 2023, significant progress has been made in aligning the offer from MLT/Serco with the Council's budget constraints and capital expenditure plans in order to come with satisfactory terms for the extension. This is demonstrated in Appendix 1 to the report. As a result, the option of extending the existing contract has now become significantly more attractive by comparison with the alternative options of bringing the service in-house or going out to tender, and can be accommodated within the existing budget framework.

Contract extension

A contract extension will ensure the continued operation of Maidstone Leisure Centre, Lockmeadow Health Club and Mote Park Outdoor Adventure on the same

current operational terms and agreements. The Council will continue to contract services with Maidstone Leisure Trust who in turn will contract the facility management obligations to Serco Leisure.

The period of the contract extension allows for further development of plans for the re-building or renovation of the existing leisure centre. It is likely that by the end of the proposed extension period, the ongoing cost of maintaining the centre in its existing form will outweigh the annualised cost of a new or significantly refurbished leisure centre. The proposed contract extension therefore incorporates flexibility, in the form of a five-year extension with three additional one-year extensions available from year six onwards. This will enable the contract to be brought to an end at a time convenient with any future leisure centre plans the council has developed beyond 2029.

The details of the final proposal from MLT and Serco are included in the exempt appendix to the report. These need to be considered against the options of tendering the leisure services contract in its entirety to the open market, letting the facilities and opportunities separately, or running them in house.

Fragmented or unified delivery

Lockmeadow Health Club offers the strongest financial return on investment of the three facilities. It was acquired by the council in March 2023 after an extensive marketing process had been conducted in order to let the former David Lloyd site. That search did not bring forward any offers that met the council's objectives. Based on this experience with Lockmeadow, it is likely that separating the facilities out and tendering them individually could lead to unsatisfactory offers for all three. Combining the three leisure venues offers economies of scale to one operator, who can manage operations and finances across all three and use them to cater for the different customer demographics across the borough and beyond.

In-house operation

An in-house operation would involve transferring the staff and operations back under council control. The council would be responsible for all aspects of the daily operation. We have taken advice from Strategic Leisure, a well-established sports consultancy that have advised Maidstone in the past, on the likely impacts of bringing the leisure services in house. They forecast a number of negative impacts:

- Private sector operators tend to generate more income from leisure services because of their more enterprising approach;
- Staffing costs are higher when leisure centre staff are employed directly by the local authority;
- Leisure operators can buy utilities on a national scale and benefit from better unit prices;
- Leisure operators have technical expertise in salaried positions in their business, councils cannot justify these positions for a small number of centres and have to draw upon external technical expertise when needed;
- Business rates become payable when leisure centres are run in house. The

- business rates at Maidstone Leisure Centre are more than £200k per annum. At Lockmeadow they are more than £120k per annum; and
- VAT is treated differently and the council's VAT position would negatively affect the annual outturn.

These factors have been estimated as equating to additional annual costs in the region of £400,000 for Maidstone Leisure Centre, £30,000 for Mote Park and more than £350,000 at Lockmeadow. The option to bring the leisure services in house would give the council more control over its service, but at the current time it would bring significant additional costs and risks.

The additional cost would be more than £750,000 per annum and the final annual costs would be subject to high degrees of fluctuation based on the centre's annual profit and loss account. The current workforce across the leisure services contract is 243 employees (full-time and part-time) and absorbing this number of employees into the council's staff base will result in additional costs in HR and other core departments. The nature of the staffing requirements in the leisure venues could also conflict with core council policies.

Cabinet and the former Economic Regeneration and Leisure Policy Advisory Committee considered the overall approach to the future of Maidstone Leisure Centre, given the impending expiry of the current operator's contract, the condition of the building and the Council's commitment to promoting health and wellbeing in February 2023.

The Communities, Leisure and Arts Policy Advisory Committee (CLA PAC) considered an earlier proposal from MLT and Serco in October 2023 and was not satisfied with its contents to recommend that Cabinet approve it. The (January 2024) report on the matter was considered at the CLA PAC meeting on the 9 January 2024, with the Cabinet recommended to approve the report recommendations.

Alternatives considered and why rejected

1. Return the council's leisure services function to an in-house operation.

The analysis from external leisure consultants Strategic Leisure summarised in paragraphs 2.12 to 2.14 to the report identifies that this option comes with significant risk to the council. Commercial partners benefit from economies of scale and buying power when running leisure sites as part of a larger portfolio. With charity dispensation embedded in their structures, leisure operators also qualify for business rate relief. The council does not qualify for such relief when running services directly. The estimated additional cost if the council ran the service in house is more than £750k per annum across all three sites. In addition, taking on this additional workforce would have implications for core council departments and Mid-Kent Services and these costs would need to be budgeted for too.

2. Put the leisure services contract for Maidstone Leisure Centre, Mote Park Outdoor Adventure and Lockmeadow Health Club out to tender.

With a refocused ambition on developing and delivering a new leisure centre, the council must manage the existing centre in as flexible way as possible. A retender would be for a short period on an ageing building. It would not be appealing to operators who would likely want a longer tenure and a commitment to operating the current premises and the new premises. The council does not have sufficient detail to tender the opportunity in this way at present. A tender will require significant capacity which is time that can be devoted to the development of a new leisure centre.

Background Papers

- Maidstone Leisure Centre Operator Contract report, considered by the Communities, Leisure and Arts Committee at its 3 October 2023 meeting.
- Maidstone Leisure Centre Report, considered by the Economic Regeneration and Leisure Committee at its 7 February 2023 meeting and by the Cabinet at its 8 February 2023 meeting.

I have read and approved the above decision for the reasons (including possible alternative options rejected) as set out above.



Signed: _____
Leader of the Council – Councillor David Burton

Full details of both the report for the decision taken above and any consideration by the relevant Policy Advisory Committee can be found at the following area of the [website](#)

Call-In: Should you be concerned about this decision and wish to call it in, please submit a call-in form signed by any three Members to the Proper Officer by: **5pm on 2 February 2024**