

**Maidstone Leisure Centre Operator Contract**

<b>Timetable</b>	
<b>Meeting</b>	<b>Date</b>
Communities, Leisure and Arts Policy Advisory Committee	9 January 2024
Cabinet	24 January 2024

<b>Will this be a Key Decision?</b>	Yes
<b>Urgency</b>	Not Applicable
<b>Final Decision-Maker</b>	Cabinet
<b>Lead Head of Service</b>	Katie Exon, Head of Property and Leisure
<b>Lead Officer and Report Author</b>	Mike Evans, Leisure Manager
<b>Classification</b>	<p>Public report with exempt appendix</p> <p>Exempt Appendix 1: Maidstone Leisure Centre Contract Extension Proposal</p> <p>This appendix contains exempt information as classified in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 in that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information).</p> <p>The public interest in maintaining this exemption outweighs the public interest in its disclosure.</p>
<b>Wards affected</b>	All

**Executive Summary**

Discussions and negotiations with Maidstone Leisure Trust and Serco Leisure have been conducted during 2023 concerning an extension of the contract for operating the Leisure Centre. An update on those discussions was brought to the October CLA PAC meeting, along with a recommendation to Cabinet that, because negotiations had

not reached a satisfactory conclusion, proposals for a relet of the contract be put in hand.

Discussions with Maidstone Leisure Trust (MLT) and Serco have continued through October and November and this report includes a final negotiated position. This represents a significant improvement on the position reported in October. The report describes the contract extension terms and weighs them against the other options available to the council.

### **Purpose of Report**

Recommendation to Cabinet

### **This report makes the following recommendations to the Cabinet:**

1. That it notes the current proposals from Maidstone Leisure Trust and Serco Leisure for a contract extension.
2. That 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. That delegated authority is 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. That an additional £250,000 for minor capital improvements be included in the capital programme.
5. That £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.

# Maidstone Leisure Centre Operator Contract

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	<p>The four Strategic Plan objectives are:</p> <ul style="list-style-type: none"> <li>• Embracing Growth and Enabling Infrastructure</li> <li>• Safe, Clean and Green</li> <li>• Homes and Communities</li> <li>• A Thriving Place</li> </ul> <p>Accepting the recommendations will materially improve the Council's ability to continue to achieve its Thriving Place objectives. We set out the reasons other choices will be less effective in section 3.</p>	Leisure Contracts Manager
<b>Cross Cutting Objectives</b>	<p>The four cross-cutting objectives are:</p> <ul style="list-style-type: none"> <li>• Heritage is Respected</li> <li>• Health Inequalities are Addressed and Reduced</li> <li>• Deprivation and Social Mobility is Improved</li> <li>• Biodiversity and Environmental Sustainability is respected</li> </ul> <p>The report recommendation(s) supports the achievement(s) of the health inequalities cross cutting objectives by ensuring a continuation of leisure centre services.</p>	Leisure Contracts Manager
<b>Risk Management</b>	Refer to section 5 of the report	Leisure Contracts Manager
<b>Financial</b>	There will be budgetary implications arising from the extension of the current leisure services contract, which are addressed in the report and appendix. These budgetary implications can be accommodated within the current budget and policy framework.	Section 151 Officer & Finance Team

<b>Staffing</b>	We will deliver the recommendations with our current staffing.	Head of Property and Leisure
<b>Legal</b>	Acting on the recommendations is within the Council's powers and ensures that the Council acts in line with its obligations under the Public Contracts Regulations 2015.	Team Leader, Contracts and Commissioning, MKLS
<b>Information Governance</b>	The recommendations do not impact personal information (as defined in UK GDPR and Data Protection Act 2018) the Council Processes.	Senior Information Governance Officer
<b>Equalities</b>	The recommendations will result in a continuation of service. There is no impact on Equalities as a result of the recommendations in this report. An EqIA would be carried out as part of a policy or service change, should one be identified.	Equalities & Communities Officer
<b>Public Health</b>	The continuation of the current service will ensure residents have consistent access to public leisure facilities.	Leisure Contracts Manager
<b>Crime and Disorder</b>	There are no implications to Crime and Disorder.	Head of Property and Leisure
<b>Procurement</b>	The contract extension follows procurement rules and the council complies with its obligations.	Head of Property and Leisure & Section 151 Officer
<b>Biodiversity and Climate Change</b>	The contract extension includes investment in energy saving measures that will reduce the leisure centre's carbon emissions. This will make a positive impact on biodiversity and climate change in the borough.	Biodiversity and Climate Change Manager

## 2. INTRODUCTION AND BACKGROUND

2.1 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.

- 2.2 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.
- 2.3 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.
- 2.4 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.
- 2.5 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.
- 2.6 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.
- 2.7 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. 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**

- 2.8 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.

2.9 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.

2.10 The details of the final proposal from MLT and Serco are included in the exempt appendix. 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**

2.11 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**

2.12 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,

- VAT is treated differently and the council's VAT position would negatively affect the annual outturn.

2.13 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.

2.14 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.

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### **3. AVAILABLE OPTIONS**

#### **3.1 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 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. **This option is not recommended.**

#### **3.2 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. **This option is not recommended.**

### 3.3 **Accept the proposal from MLT and Serco Leisure and extend the existing contract.**

The offer includes the council funding the minor practical improvements to the centre in 2024 so that the benefits from reduced costs and increased revenue can materialise as soon as possible. This will maximise the potential of the period 2024 to 2031 for the residents and centre users and provides improved annual return revenues for the council. A contract extension with Maidstone Leisure Trust and Serco can be flexible and include moveable end dates (up to the maximum allowed) to accommodate the transition to a new centre. An extension of the existing contract also enables the council to benefit from its existing arrangements and devote its attention to a new centre. **This option is the recommended option.**

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## 4. **PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

4.1 The MLT and Serco proposal will deliver minor practical improvements to the leisure centre for customers including:

- New splashpad and upgraded leisure water
- Separation glazing to enclose the pools in discrete zones
- Upgraded air handling and heat recovery to manage the temperature and air quality in those zones and greatly reduce heat loss
- Refurbished café area
- Equipment upgrades in the gym

4.2 These improvements generate a return over the period of five to eight years of the contract extension and contribute to the revenues the council will receive between 2024 and 2031. They incorporate some modifications as compared to the minor practical improvements agreed by Cabinet in March 2023. Tagactive and upgraded reception areas that were included in the minor practical improvements as detailed in March 2023 do not generate a return in seven years and have been removed from the MLT/Serco proposal. They have been replaced with equipment upgrades and energy saving measures which offer a better return but still fall within the scope of minor practical improvements, as shown in the table below:

<b>Capital Improvement Items</b>	<b>Impact</b>
Splash pad	Revenue generation
Soft play	Revenue generation
Fitness pool ventilation system	Cost reduction
Teaching pool ventilation	Cost reduction
Changing village ventilation system	Cost reduction
Fitness and leisure dividing glazing	Cost reduction
Café refurb	Revenue generation



Immersive group exercise	Revenue generation
Poolview system	Cost reduction
<b>Capital Renewal Items – Maidstone LC</b>	<b>Impact</b>
Health & Fitness gym equipment	Protect revenue
Wetside changing room refurbishment	Protect revenue
Replace gas boilers	Cost reduction
Replace domestic hot water system	PPM
Replace building management system	Cost reduction
Replace heating pumps and variable speed drives	PPM
Replace air handling ductwork insulation	PPM
Replace pool heat retention covers	PPM
Replace leisure feature panel	PPM
Fitness Plant Room - Filtration & Electrics	PPM
Refurbish wave machine	Protect revenue
Renew extractor fans	PPM
Reinstate changing room floor	PPM
<b>Capital Renewal Items – Lockmeadow</b>	
Health & Fitness gym equipment (LHC)	Protect revenue
Changing room refurbishment (LHC)	Protect revenue
Thermal pool cover (LHC)	Cost reduction
Building energy management system	Cost reduction
<b>Capital Renewal Items – Mote Park</b>	
Replace astorturf (Mote Park)	PPM
Replace slings and harnesses	PPM
Project manager <sup>1</sup>	
Future contingency (£100k pa years 3-7) <sup>2</sup>	

## Notes

1. The projects listed above will require significant commissioning and project management effort. Accordingly, a role of project manager has been defined in order to ensure that there is a dedicated resource to carry out this work.
  2. Notwithstanding the work already carried out to define the projects listed above, it remains likely that there will be further work required, in light of the age and condition of the leisure centre, to ensure that it remains fit for purpose. Accordingly, an annual contingency will be set aside. If not used in any period, this will be rolled forward to subsequent years.
- 4.3 Within the extension period the council continues to be responsible for the investment needed in the building plant and the ongoing renewals required to the assets. The cost of these obligations is included in the exempt appendix to show the total cost of council funding needed for the leisure centre, Lockmeadow and Mote Park over the extension period. The sum shown in the exempt appendix is lower than the provision in the 23/24 Medium Term Financial Strategy, however the age of the building does still pose a risk to the council and the assets and associated finances will need close monitoring during future years.
- 4.4 This contract extension will set leisure provision on a sustainable and consistent footing for five to eight years. As described in paragraph 2.9, the variable end date of the extension period allows the council to be flexible and agile in its planning for the future of the leisure centre. Recommendation 5 of this report will enable the council to develop detailed plans and a planning application for a future leisure centre, refurbished or redeveloped, that can be delivered before the end of the contract extension period. In this time the council will also be proactive with other energy saving initiatives and interventions that become deliverable at Mote Park or at Maidstone Leisure Centre, or both. The Biodiversity and Climate Change Manager is developing proposals for renewable energy at Mote Park that could further benefit the leisure centre in the immediate term.

### **Swimming pool support funding**

- 4.5 As described in paragraph 2.2, Sport England made phase II of the Swimming Pool Support Fund available to local authorities in October to combat the rising costs of managing public pools. The council has submitted a bid to that fund and any funding received would supplement the figures shown in the exempt appendix. However, for accounting purposes the council is assuming that zero funding will be received.

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## **5. RISK**

- 5.1 The risks associated with this proposal, including the risks if the Council does not act as recommended, have been considered in line with the Council's Risk Management Framework. That consideration is shown in this report at paragraph 4.3 and identifies some risks assessed rated as "RED" because of the possible financial impact. The report details mitigation strategies for those risks at paragraph 4.6 but they remain assessed as "High". However, we believe the opportunities outweigh the risks.
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## **6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 6.1 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.
- 6.2 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. This report was considered at the CLA PAC meeting on the 9 January 2024, with the Cabinet recommended to approve the recommendations made.
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## **7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 7.1 Following the recommendations in this report being recommended to, and approved by, Cabinet the council can work to the following timeline:

<b>Milestone</b>	<b>Action</b>
February 2024	Lease and contract documentation finalised and signed by all parties.
March 2024	Practical improvements works begin at Maidstone Leisure Centre.
April 2024	Contract terms line up with new financial year

- 7.2 The council will continue its work on a new leisure centre in 2024, visiting other new centres and some currently under construction, and master planning what such a centre could deliver for Maidstone. Part of that work includes how sustainable the building can be and how it can maximise the use of renewable energy sources in its operations.
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## **8. REPORT APPENDICES**

The following documents are to be published with this report and form part of the report:

- Exempt Appendix 1: Maidstone Leisure Trust and Serco Leisure proposal summary
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## **9. 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.