



Report of the Director of Learning and Leisure

Executive Board

Date: 16th May 2007

Subject: APPROVAL OF THE AFFORDABILITY OF THE NEW LEAF LEISURE CENTRES PFI PROJECT AND PROGRESS UPDATE

CONFIDENTIAL APPENDIX 1 Access to Information Procedure Rule 10.4 (3)

Electoral Wards Affected:

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In
(Details contained in the report)

EXECUTIVE SUMMARY

1. The Council's Executive Board gave approval to the submission of an Expression of Interest (EOI) for the New Leaf Leisure Centres Project (NLLC) to the DCMS on 18th May 2005 for £60.1 million of PFI credits. The purpose of the bid was to re-provide local services for sport and active recreation and to create linkages with health and education. The bid was given approval by the DCMS during August 2006; however the credits were reduced from £60.1 million to £30 million for three new leaf leisure centres.
2. On 18 November 2006 further to an additional detailed options appraisal submission to DCMS the Minister for Sport confirmed that the Council should submit an Outline Business Case (OBC) for two leisure centres at Morley and Armley with the £30 million PFI Credits. In addition the DCMS has requested that Leeds submit a mini business case in relation to the potential to create a third leisure centre with potential additional PFI Credits at Holt Park.
3. On 9th February 2007 Executive Board approved the principle of the Outline Business Case (OBC) to the DCMS for approval incorporating the affordability envelope for the project.
4. The NLLC Project underwent a Gateway Review 1 in June 2006 conducted by the 4P's (part of the Local Government Association). The Project was rated a red status due to the affordability issues associated with building three leisure centres with £30 million PFI

Credits.

5. The NLLC project aims to provide new leisure centres to replace existing deteriorating stock and to provide modern functional and flexible space for sport, recreation, community, health and extended learning activities across the city with the aim of increasing participation in active recreation, and providing accessible and affordable leisure centres for local communities.
6. After assessment of the financial aspects of the project by the Head of Learning and Leisure Finance and the Public Private Partnerships Unit, advised by the Council's financial advisor Price Waterhouse Cooper (PwC), the NLLC is judged to be affordable by the Council and will provide Value for Money for the Council.
7. Approval is sought from Executive Board to the affordability of the project set out in the attached confidential appendix 1 and annex.
8. Authority costs outside of the PFI project will need to be met by the Council and a provisional sum of £2 million will be included in the Learning and Leisure Capital Programme for 2008/09.
9. It is proposed that the project will be procured through the Local Education Partnership.

1.0 INTRODUCTION

- 1.1 The purpose of this report is to seek Members' approval to the affordability of the New Leaf Leisure Centres PFI Project and provide a progress update for the project.
- 1.2 The report seeks to provide Members with an update on the financial issues relating to this Project since Members endorsed the submission of the Outline Business Case to the Department of Culture, Media and Sport on 9th February 2007.

2.0 BACKGROUND

- 2.1 The Council's Executive Board gave approval to the submission of an Expression of Interest (EOI) for the New Leaf Leisure Centres Project (NLLC) to the DCMS on 18th May 2005 for £60.1 million of PFI credits. The purpose of the bid was to re-provide services for sport and active recreation and to create linkages with health and education. The bid was given approval by the DCMS during August 2006; however the credits were reduced from £60.1 million to £30 million for the project.
- 2.2 On 21st August 2006 the Council submitted an additional detailed options appraisal to the DCMS seeking guidance as to the final option to be submitted through the Outline Business Case given the affordability gap identified through the financial modelling for three leisure centres in June 2006. The other two Local Authorities involved in the same bidding round were also asked to submit options appraisals to the DCMS in light of their affordability issues.
- 2.3 On 18th November 2006 the Minister for Sport endorsed the option for the Council to submit an OBC for the creation of two new leisure centres one in Morley and one in Armley with enhanced facilities with the funding remaining at £30 million PFI Credits for the two leisure centres.
- 2.4 On 9th February the Council's Executive Board approved the principle of the outline business case incorporating the affordability for the project and approved the

investigation with DCMS for the potential to create a third new leisure centre with potential additional PFI Credits.

2.5 The OBC has been submitted to DCMS and Partnerships UK (PUK) for assessment and it is anticipated that the OBC will be considered by PRG for approval on 19th June 2007.

2.6 It has been agreed with the DCMS that the Council will submit a mini business case for potential additional PFI Credits to replace the Holt Park leisure centre and work has commenced to investigate the technical and legal issues in relation to the site and initial public consultation is being undertaken on 25th April 2007 to support the case.

3.0 SUMMARY OF THE NEW LEAF LEISURE CENTRES PROJECT (NLLC)

3.1 The NLLC project aims to provide leisure centres to replace existing deteriorating stock and to provide modern functional and flexible space for sport, recreation, community, health and extended learning activities across the city with the aim of increasing participation in active recreation, and providing accessible and affordable leisure centres for local communities.

4.0 SCOPE OF THE PROJECT

4.1 The NLLC proposes to address 2 existing leisure centres by creating two New Leaf centres in Morley and Armley. The facilities in Morley and Armley will replace the existing centres.

The proposed facilities mix at each of the new centres is as follows;

4.2 Proposed Morley Leisure Centre Facility Mix

- 25m, 6 lane pool with moveable floor with small pool for teaching swimming with spectator seating for 150
- 6 badminton court – sized sports hall for football, gymnastics, badminton, basketball, etc
- 100 station Bodyline fitness centre
- Meeting / classroom for up to 20 people
- GP / physiotherapy room
- Large multi purpose room (200m²), which can split into 3 areas for aerobics / keep fit / meetings / crèche / classroom / parties / functions etc.
- Large entrance atrium for meeting / socialising / links to the park area

Armley Leisure Centre Facility Mix

- 25m, 4 lane pool
- Small pool for teaching swimming with moveable floor to accommodate disabled any very young users. Seating for 50
- 4 badminton court – sized sports hall for football, gymnastics, badminton, basketball, etc
- 100 station Bodyline fitness centre
- Meeting / classroom for up to 20 people
- GP / physiotherapy room
- Large multi purpose room (200m²), which can split into 3 areas for aerobics / keep fit / meetings / crèche / classroom / parties / functions etc.
- Large entrance atrium for meeting / socialising

- 4.3 There will be additional authority costs associated with the project in relation to highway improvements a provisional sum of £2 million will be included in the Learning and Leisure Capital programme for 2008/09 subject to the actual costs being confirmed in due course.

5.0 OPTION APPRAISAL

- 5.1 A large number of aspects have been examined as part of the options appraisal in the OBC. The appraisal was based on best practice options appraisal guidance from the 4Ps (part of the Local Government Association) and the Treasury. From this analysis the recommended option is the development of a range of new accommodation across existing sites as summarised above.

6.0 VALUE FOR MONEY

- 6.1 The Council identified that a Design, Build, Finance and Operate approach procured through the Government's Private Finance Initiative demonstrates the potential to deliver Best Value. This would not include the operation of the Leisure Management service which would be retained by the Council but would include the operation of the hard and some soft facilities management associated with the building including security, maintenance and cleaning. Based upon the analysis completed, the Project Sponsor, the Chief Recreation Officer is confident the proposed PFI project will offer value for money in comparison with a traditional procurement route in line with expectations from the market, given the assumptions made.

7.0 PFI CREDITS AND AFFORDABILITY

- 7.1 See Confidential Appendix 1 and its annex.

8.0 PROJECT DELIVERY

- 8.1 The City Council has developed a very respected track record of delivering PPP/PFI projects and the project has recently been assessed through an independent Gateway Review established by 4P's. The purpose of the review is to evaluate the viability of the project, the business objectives and the project team's capacity to deliver the required outcomes, the result of the review has been a red status.

Leeds City Council has an established project delivery model, which was successful for the Leeds 7 Schools Project and the Leeds Combined Secondary Schools. The Council is currently involved in several projects in various stages of the procurement and approval process and the model has been extended to all PPP/PFI infrastructure projects within Leeds City Council. The appointed financial advisors to the Council, PricewaterhouseCoopers (PwC) have assisted officers in developing this OBC and have experience in PFI projects in leisure services. Subject to the approval of the NLLC OBC it is anticipated that PwC will provide financial advice and that DLA will provide legal advice to the City Council to support the project, both under the existing framework arrangements for advice on PFI contracts.

- 8.2 As part of the options appraisal for the delivery of the project consideration as to the methods of procurement identified that the most cost effective and timely delivery mechanism for the NLLC project is under the Local Education Partnership (LEP) where a PFI Consortia E4L has been chosen to deliver BSF and New Leaf projects in

partnership with the Council. This will enable a reduction in procurement time for the project and enable the NLLC project to benefit from the economies of scale and continuous improvement savings attributed to the Local Education Partnership (LEP) for Leeds. The reduction in procurement costs associated with this delivery route and the financial savings attributed to the chosen Consortia for this project are shown within the Confidential financial appendix 1 and annex.

- 8.3 The project programme indicates contract award in May 2008 and construction of the new leaf leisure centres taking place over an 18 month build period, subject to approval from the Department for Culture, Media and Sport.

9.0 MANAGEMENT ARRANGEMENTS

- 9.1 It is proposed that the management and decision making arrangements are in line with the Executive Board approval, on 9th March 2005, for Corporate Governance and Management arrangements for Public Private Partnership and Private Finance Initiative (PPP/PFI) Projects within the City Council. In particular that a project board – the Education Project Board – be used as the Project Board for the New Leaf Leisure Centres Project.

9.2 The Project Team

A Project Team will be formally established to take responsibility for the day to day administration of the project. This will be a small core team, which will be assisted and advised, at different stages of the relevant project by specialists from different areas within the Council. There will also be a need to obtain external advice in some areas, namely legal, financial and technical. It is however a pre-requisite that the work will be primarily undertaken from existing “in house” resources in the Public Private Partnerships Unit within the Chief Executive’s Department and nominated, dedicated resources within Learning and Leisure.

The Project Team will service the Project Board and make available to it minutes and other documentation as required. Papers to Project Board will be presented in the corporate reporting format. The Project Team will also be responsible for ensuring project communication and liaison mechanisms are in place and functioning.

10.0 CONFIDENTIAL APPENDIX

- 10.1 Appendix 1 and its annex to this report contains information which if disclosed to the public would, or would be likely to prejudice the commercial interests of the Council. The Appendix contains commercially sensitive information which if disclosed may prejudice the negotiation of the contract for the project.

11.0 RECOMMENDATION

Executive Board is requested to:

- 11.1 Approve the affordability of the New Leaf Project as set out in the confidential appendix 1 and its annex.

Appendices

Appendix 1 – Financial Issues

Annex 1 - Summary of affordability schedule