



Report of the Cabinet Member for Investment, Regeneration and Tourism

Cabinet - 20 December 2018

FPR 7 Capital Development Proposals for Plantasia in Partnership with Parkwood Leisure

Purpose:	To confirm level of funding for the Plantasia capital development proposals in partnership with Parkwood Leisure To comply with Financial Procedure Rule No 7 (Capital Programming and Appraisals) to commit and authorise the schemes, as set out in the Tender from Parkwood Leisure, within the Council's Capital programme.
Policy Framework:	Sustainable Swansea – fit for the future.
Consultation:	Legal, Finance, Access to Services
Recommendation(s):	It is recommended that: 1) The overall Capital Development principles are approved together with their financial implications. 2) Authority is given to draw down the Capital borrowing and to authorise the schemes contained within the Capital Development principles. 3) A Project monitoring mechanism is developed to manage the individual schemes with appropriate officer representation and sign off process. 4) Grant funding opportunities are explored in partnership with Parkwood Leisure to reduce the amount of capital borrowed and repayment costs to the Council.
Report Author:	Jamie Rewbridge
Finance Officer:	Ben Smith
Legal Officer:	Debbie Smith
Access to Services Officer:	Rhian Millar

1. Introduction and background

- 1.1 As a culmination of the Cultural services commissioning review and subsequent procurement exercise, a decision to appoint Parkwood Leisure as

preferred bidder for Plantasia, under a 15 year contract, was made by Cabinet on 21 June 2018.

- 1.2 Plantasia has been operating on a reduced budget since 2014/15, when previous management put forward closure and alternative operating options which were subsequently rejected by Members, but which led to a reduction of £100k of its operating budget nonetheless.
- 1.3 Current and previous performance of the facility shows an outturn of £190k cost to the Council in 16/17, against a budget of £130k, therefore £60k overspend.
- 1.4 At financial closing in 17/18 Plantasia showed an outturn of £275k cost to the Council, against a budget of £149k, a £126k overspend. These costs were higher than expected due to the ongoing delays in relation to the café and general site disruptions, causing loss of income.
- 1.5 Despite strict adherence to budget controls, the costs of operating the facility and providing adequate customer care and animal welfare are unable to be met by the current budget provision. In order to deliver a balanced budget, this necessitates reduced spend in other parts of the Service accordingly, creating further risk to adequate service provision.
- 1.6 Through the various stages of the procurement process it was evidenced that no option would deliver a nil cost revenue outcome in the medium term. This was noted and accepted, along with the knowledge that there are likely to be significant costs of £500k-£1m to close the facility.
- 1.7 At Final Tender stage, the affordability limit was increased to £150k per annum cost to the Council and further savings targets removed from the MTFP.
- 1.8 There was only one submission for Plantasia, from Parkwood Leisure who presented a bid which improved the existing position to £149,891 cost per annum to CCS, just below the affordability position of £150k. However, this was on the basis that they were successful in Lot 1, which they were not. The submission was based upon an average management fee of £79,891, plus capital repayments of £70,000 on prudential borrowing of £1M to invest into the facilities and attractions.
- 1.9 Through dialogue and clarification, the capital investment requirement has now increased to £1.1M. Whilst actual borrowing costs will depend on the interest rate on the day of borrowing, the use of 7% is to provide a ball-park figure for comparison purposes.
- 1.10 Following clarification, Parkwood indicated that they would be seeking circa £30,000 increase in management fee, raising the management fee to C£110k per annum plus any prudential borrowing costs C£70k, if they were offered Planstasia (Lot 5) in isolation. This was to cover additional management, marketing and operational costs, which could not be defrayed across a wider Leisure Centre portfolio locally. With the costs of finance factored in for the capital, total the savings are circa £90k per annum less than the cost of operating in 17/18.

- 1.11 The overall proposition from Parkwood is to make major improvements, including innovative solutions for attractions, marketing and commercialism.
- 1.12 In summary Parkwood have agreed to proceed with their tender in isolation at an additional management fee totalling £103k, a TUPE Plus 1 position as a minimum criteria, and £1.1M investment through Prudential borrowing and paid for through revenue budgets by the Council over the life of the contract.
- 1.13 Parkwood Leisure's solution also transfers a large proportion of future maintenance obligations from the Council to the Operator, and addresses backlog maintenance issues.
- 1.14 Contract negotiations have been taking place since August/Sept with a number of key briefings and engagement sessions with stakeholders including staff and Unions. These negotiations are ongoing.
- 1.15 Anticipated contract start date is January or February 2019. The start date is critical to ensuring the project and developments remain on track and staff and Unions negotiations and discussions are afforded the adequate time and resource.
- 1.16 The purpose of this report is to seek approval to invest the £1.1M as set out in the Parkwood tender, to be funded by prudential borrowing. The contents provide broad parameters and highlight proposals, details of the capital development proposal schemes and the mechanisms used to achieve best value and effective delivery in procuring the works.
- 1.17 This report also requests authority to apply for other funding opportunities to increase the level of capital investment, utilising the available capital per site/project as potential match. With the caveat that the purpose or restrictions of any grant can be fulfilled by Parkwood Leisure in the operation of Plantasia under contract with the Council over the 15 year contract term.

2 Capital Development Principles

- 2.1 The procurement process was awarded through entering into Competitive Dialogue procedure under the Public Contracts Regulations 2015. The aim of the Competitive Dialogue was to identify and define the means best suited to satisfy Council and stakeholder needs.
- 2.2 The Competitive Dialogue included discussions on the current conditions of the assets and opportunities to improve commerciality and therefore reduce costs overall. These discussions included risk profiles, life cycle costings and approach to achieve the best value for money. The process also evaluated design solutions and opportunities to reduce overheads as well as improve income through satisfying and increasing market demands for facilities.
- 2.3 In addition to the above factors, throughout the procurement process it was identified through Council commissioned non-invasive condition review reports that there was significant backlog maintenance across the portfolio of Leisure facilities that required attention.

- 2.4 It was discussed through dialogue with the bidders how these backlog maintenance issues could be met through any proposed capital development schemes.
- 2.5 It was acknowledged throughout that the intention of the procurement exercise was to identify ways in which the current facilities could be retained and secured for the future, rather than continue to decline, due to cost avoidance or investment opportunities available to a third party.
- 2.6 The principles remained that future maintenance obligations would reside with the operator and commercial targets resulting from investment were the liability and risk of the operator. This also served to ensure decisions and allocations would be grounded in their industry expertise, and result in an improved operation at less cost to the Council.
- 2.7 It was acknowledged that provided the terms of the contract award were fulfilled, in consultation with the Council the resultant operator could review and revise future investment opportunities at the facility, where this would prove beneficial to the overall cost envelope, commerciality and long term sustainability of assets.

3 Capital Development Proposals and Principles (Parkwood Leisure)

- 3.1 Outline proposals project plans and development plans were submitted as part of the final tender submission by Parkwood Leisure. These plans and proposals have subsequently been reassessed with a new £1.1M value put forward, which will inform the contract award.
- 3.2 The draft proposals were accepted as part of the tendering process and agreed by Cabinet. These proposals still remain subject to final review, screening and ratification through the appropriate Council approval processes.
- 3.3 As set out to Cabinet previously, the proposals from Parkwood present exciting and innovative solutions to operate Plantasia and introduce new interactive exhibitions and events, which will provide a new focus for the attraction. The proposals offer the Council an affordable, inspirational visitor attraction to support the viability of the city centre.
- 3.4 Parkwood's approach is to retain the name 'Plantasia', with a strap line 'Grow Your Imagination' and sets out to revitalise the venue that provides a unique and must see experience that is fun, high quality and entertaining, whilst also educating on rainforest life.
- 3.5 Key Markets are Families with children under 10, schools and group visits. With secondary markets within corporate and commercial events and business use whilst also remaining a spontaneous wet weather attraction.
- 3.6 The proposed new features enhance the customer journey, with a story from start to end using guides, trails and improved communication.
- 3.7 This enhanced journey will include an interactive waterfall at the heart of the space, along with an opportunity to explore the space from above with rope bridges and education /event accommodation, which will be DDA compliant, along with all other parts of the transformed facility.

- 3.8 Other developments in scope include exterior improvements, immersive audio and interactive effects, such as augmented reality. These are complemented by an improved café and food offer within the newly refurbished space, with an option of exterior covered play to further increase dwell time and open up new market opportunities.
- 3.9 Works to the facility are planned be completed within 3 months of contract start, with a timeline agreed. Anticipation is that all works will be completed by between April and May 2019 ready for the Easter holidays market capture.
- 3.10 All programmed works are subject to final design, discussion and approval with key stakeholders, including Cabinet Member, Cultural Services client team, Centre Staff.
- 3.11 A sign off procedure will be developed which will set out relevant reporting protocols and approval and sign-off of the works programme.
- 3.12 Cabinet will not need to authorise any amendments to the schemes of work should the principles of the development remain within the themes listed in 3.6 to 3.9 above.
- 3.13 Any capital development can impact on future use of spaces. All proposals would be subject to the Councils EIA process and any proposed changes would also be subject to necessary consultation with relevant stakeholders.
- 3.14 Based upon the projected cost of borrowing at approximately 7% (£70k per million borrowed), the profile of capital repayments as a proportion of average revenue cost to Cultural Services has been depicted in Table 2 below, as Cost of Finance (incurred by the Council) This is an exemplar costing using averages used at tender stage.

Table 2

Average Annual Cost to Council (15 year contract) (£'000's)	Parkwood Leisure
Management Fee paid by the Council	£103,000
Cost of Finance (incurred by Council)	£77,000
Total Annual Cost to the Council	£180,000
Total Capital Required	£1,100,000

- 3.15 A copy of the Councils financial implications summary has been included as an appendix, which sets out the anticipated expenditure per financial year.

4. Capital Payments

- 4.1 Capital payment provisions will need to be set out in a Schedule to the main contract between the Council and Parkwood. This would cover:

- Drawdown timings and amounts;
 - Invoicing arrangements;
 - Sign off requirements for milestone payments.
- 4.2 Parkwood Leisure will hold a 5% retention against the Principal Contractor, released after completion of snagging and 6 months from practical completion.
- 4.3 Sign-off procedures for capital project would be led by a nominated certifier who will sign off the works.

5. Financial implications

- 5.1 The total amount of Capital required is £1.1M. This is to be funded mainly by unsupported borrowing, (circa £1.02m) and the borrowing costs will be funded from the Cultural Services budget identified for the overall contract cost. The exact borrowing costs won't be known until the borrowing occurs, however it is envisaged that the borrowing and loan repayment will be circa £77k pa (allowing for the loan to be completely repaid within the life of the 15 year contract). The remainder of the cost (£80k) will be funded by a capital receipt earmarked for Plantasia.
- 5.2 In addition there may be an opportunity to apply for a grant from Visit Wales, in conjunction with Parkwood Leisure. If this is the case this will further reduce the amount of borrowing required.
- 5.3 The lease of the site will be classed as a non-business lease, provided no consideration for the lease is received. This means the capital spend at the site will not affect the Council's VAT partial exemption calculation. It may be necessary to opt to tax the site should this position change.
- 5.4 Any risks identified by Parkwood Leisure or their appointed agents will need to be covered by an allowance/contingency, built into the overall cost plans. Should these be exceeded any extra costs will fall to Parkwood Leisure or the schemes revised to meet the budget.
- 5.5 Reasonable mitigating strategies will be identified as part of project planning and risk management, to avoid incurring additional costs to the overall project.

6. Legal implications

- 6.1 As set out in the cabinet report dated 21 June 2018 the procurement process securing Parkwood Leisure as the successful tenderer was undertaken in compliance with the Council's Contract Procedure Rules and relevant EU procurement legislation. No challenge has been received in relation to that process or its outcome.
- 6.2 The Capital Development proposals and the delivery of the individual schemes will be governed by the contract documents agreed with Parkwood Leisure. These contract documents and contract security in the form of a performance bond or company guarantee and will ensure that the interests of the Council are protected.

7. Equalities and Engagement

- 7.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
 - Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - Foster good relations between people who share a protected characteristic and those who do not
- 7.2 Our Equality Impact Assessment process ensures that we have paid due regard to the above.
- 7.3 An EIA was undertaken as part of the original report to Cabinet on 21 June 2018. As detailed earlier in this report, once the receipt of funding is approved all detailed works and schemes outlined across the portfolio, they will be subject to the Council's EIA process and this will begin at the earliest opportunity.

Background Papers: None

Appendices: Appendix 1 – Financial Implications