

Agenda item:

**[No.]**

**Cabinet Procurement Committee**

**On Thursday 3<sup>rd</sup> February 2011**

Report Title. Award of Contract for Fitness Suite Equipment Supply and associated Maintenance and Support Services

Report of **Mun Thong Phung, Director of Adult, Culture & Community Services**

Signed :

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Wards(s) affected: **ALL**

Report for: **Key decision**

**1. Purpose of the report (That is, the decision required)**

- 1.1. To seek Cabinet Procurement Committee approval to the award of the contract for Fitness Suite Equipment Supply and associated Maintenance and Support Services for a period of five years commencing May 2011.

**2. Introduction by Cabinet Member (if necessary)**

- 2.1. I am asking colleagues to consider awarding the contract for the Fitness Suite Equipment Supply and associated Maintenance and Support Services to the successful company indicated in Part B of this report on the grounds that this is the most economically advantageous tender for the Council.
- 2.2. The supply and maintenance of new fitness equipment at the Council's two main leisure centres will ensure that the Council can continue to provide high quality inclusive fitness suites that contribute to improvements in the health

of residents of the Borough.

2.3. The award of the contact will also reduce the overall running costs of the facilities over the next five years.

### **3. State link(s) with Council Plan Priorities and actions and /or other Strategies:**

3.1. Key elements of the Council Plan relevant to the provision of new fitness suite equipment are:

- Improved opportunities for leisure (3.3)
- Engaging citizens (5.1)

3.2. The National Performance Indicators that the supply of new fitness equipment can most significantly contribute to are :

- NI 6 Volunteering
- NI 8 Adult participation in sport and active recreation
- NI 57 Children and Young People's participation in high quality P.E. and sport
- NI 110 Young People's participation in positive activities
- NI 121 – Mortality rate from all circulatory diseases at ages under 75

3.3. There are also direct links with the Council's strategy for Sport and Physical Activity.

### **4. Recommendations**

4.1. That Members agree to award the contract in respect of Fitness Suite Equipment Supply and associated Maintenance and Support Services to the contractor detailed in paragraph 13.4 in Part B of this report as allowed under Contract Standing Order CSO.11.03 in the sum of £751,233.32 for a period of five years via a finance lease arrangement.

### **5. Reason for recommendation(s)**

5.1. The recommendation for the award of contract is made on the basis that it is the most economically advantageous bid for the Council.

5.2. Other options available to the Council do not offer the Council the potential to grow income and usage in the short and medium term.

5.3. According to Sport England's latest participation data, usage of the gym is the most popular physical activity in the Borough.

5.4. Through the award of the contract the Council can realise the benefits set out in paragraph 7.25 and has the potential deliver of £1,395,000 of

additional income over the next five years.

## 6. Other options considered

6.1. **Do nothing:** This option is not open to the Council as the existing equipment would revert to the leasing company at the end of the leasing period in March 2011.

6.2. **Retain Existing Equipment:** The Council could either purchase the existing 130 pieces of fitness equipment (£35,000) or negotiate a renewal of the existing lease arrangements for a further period of five years (£7,600 per annum).

In addition to the leasing cost the Council would remain liable for all maintenance, repair and replacement costs as well as the provision of IT software and hardware materials (£79,000 per annum) during the five year period.

As the equipment ages this liability would increase as much of the cardio vascular equipment (treadmills, bikes, cross trainers, rowers) would reach the end of its economic life in the first two years of the new lease agreement. In order to maintain current service levels it could reasonably be foreseen that between 2 and 4 pieces of equipment would require replacing annually at a cost of between £15,000 - £30,000.

Therefore, an overall budget comparison of between £102,000 to £117,000 per annum should be used.

If this option was pursued then users would experience a gradual deterioration in the quality and availability of equipment with a consequential reduction in the Council's ability to attract new customers and retain the existing customers.

This option does not allow the Council to reopen the Shokk gym area at Tottenham Green which is targeted at access by a wide range of vulnerable groups.

This option would not include the proposed sales and work force development support or the new exercise management and retention systems which are key to increasing the number of people in exercise and generating the estimated additional income.

Current Direct Debit and pay and play income is likely to decline by an estimated average of £50,000 per annum, and maybe more as users are charged more (16% increase from Feb 2011) for a deteriorating service

ultimately increasing rather than decreasing the overall subsidy cost to the Council.

Whilst the Council could renegotiate its current arrangements with the leasing company the option to renew the equipment and support services would allow the Council the greatest opportunity to fix costs over the next five years and to grow income (See budget comparison table in 13.14 Part B of the report).

## **7. Summary**

### **Reinvestment Rationale**

7.1. The Fitness Suites are at the heart of the Park Road and Tottenham Green Leisure Centres ability to generate income. These facilities are key attractions to residents who regularly exercise and many of whom are willing to commit to paying monthly in advance for the use of the facilities. Between 2006 and 2011 the Council has invested £700,000 in the equipment for the Fitness Suites. During that same period usage of the fitness suites has generated £4,900,000 of income. In the five years prior to the investment in 2006 the fitness suite at Park Road did not exist and the fitness suite at Tottenham Green generated £980,000 between 2001 and 2005.

7.2. An investment of £800,000 over the next five will ensure that current performance of £4.9m can be maintained and improved upon. Research has demonstrated a latent demand of some 2750 new gym members in the catchment areas for the two leisure centres. Using these figures it is possible to project further growth in gym membership income by 26% delivering an additional £1,395,000 over the next five years. The proposed contract includes sales support to deliver this growth. An outline plan with key performance indicators for each of the five years of the contract is included in the tender submission and will be refined as part of the contract lead in period. Monthly, Quarterly and Annual results will form part of the contract monitoring process.

7.3. Recent research has shown that even during these hard times gym membership has been in the top 3 services people are prioritising alongside their mobile phone contract and home broadband. Therefore, in the coming years there is no reason to expect that gym membership will not remain amongst peoples priorities. Retaining a gym membership allows people an opportunity to get out of the house, socialise and exercise which at the end of their session will leave them in better spirits and will help them manage their stress levels arising from the pressures of life.

### **Procurement Process**

7.4. The Council's existing leasing arrangements for the 130 pieces of fitness suite equipment and other ancillary items at Tottenham Green and Park Road

Leisure Centres comes to an end in March 2011. To ensure continuity of service for customers and maintain and improve income and usage of the service, new arrangements need to be in place from April 2011.

- 7.5. In order to achieve this an EU compliant procurement exercise commenced in May 2010 and the tenders were received on the 1<sup>st</sup> November 2010. As part of the tender process a reverse e-auction took place to ensure that the most competitive price was arrived at from all those companies tendering. Advice and guidance has been given from the Corporate Procurement Unit throughout the process.
- 7.6. Following the placing of the OJEU advert in May 2010 respondents interested in applying for the contract responded via the Competefor website. Five companies fully completed their submissions on the Competefor website.
- 7.7. Of those five companies four companies went on to provide the necessary documentation to be assessed as part of the pre-qualification. During the prequalification assessments it was identified that one of the remaining four companies did not have sufficient credit worthiness to proceed and were discounted at this stage.
- 7.8. Therefore on the 22<sup>nd</sup> September the remaining three companies were invited to tender for the contract. During the tender period one of the three companies advised the Council that they would be withdrawing from the tendering process due to internal changes within the company that would not be resolved in time to fulfil the requirements of the contract in the first half of 2011.
- 7.9. Tenders were returned on 1<sup>st</sup> November 2010 from the remaining two companies. The tender award criteria was split 60% on quality and 40% on price.

#### **Background on current investment**

- 7.10. During 2005/06 the Council undertook a major programme of investment in the leisure centres at Park Road and Tottenham Green. Central to those investments was the creation of two new fitness suites which have generated sufficient additional income to pay for the annual cost of the prudential borrowing, staffing and equipment leasing cost. In addition the fitness suites have played a significant part in doubling the income generated at Park Road and increasing the income generated at Tottenham Green by 42% over the last five years.
- 7.11. The fitness suites are fundamental to generating the direct debit income for the service and during this five year period the annual net direct debit income has grown from less than £90,000 a year to over a £1,000,000 in 2010/11. This has led to a reduction in the subsidy per user visit at Park Road from £1.17 to £0.50 and at Tottenham Green from a subsidy of £2.33 per visit to £1.40. *(NB subsidy per user visit given as of April 2009 as April 10 figures are distorted by Single Status back pay and are therefore not comparable).*
- 7.12. Usage by the public of the fitness suites has grown from 48,000 visits per year in 2005/6 to 130,000 visits per year in 2009/10. The fitness suites have also

been key to delivering projects targeted at specific vulnerable groups such as:-

- NHS Haringey's GP referral scheme "Active for Life" which commenced in 2007 and has assisted over 800 residents in their recovery and management of their major illness.
- The establishment of the Youth Gym which has encouraged young people to participate over 20,000 times on a casual basis plus countless sessions booked by schools, colleges, youth services and other organisations.

7.13. A five year replacement cycle of fitness equipment is common practice across the industry. As with most mechanical items the older they get the more likely they are to breakdown. Therefore, renewing fitness equipment every five years ensures a consistent level of service is delivered to the customers.

7.14. Most cardio vascular equipment (treadmills, bikes) will be nearing the end of their useful life after five – seven years, whilst the resistance equipment (weight machines) may last up to 10 years. Ongoing maintenance cost will rise year on year as equipment ages and individual pieces of equipment become uneconomical to repair and need to be replaced.

7.15. New arrangements for the provision of the fitness equipment need to be put in place prior to the end of March 2011. The typical lead in time for new equipment is 10 - 12 weeks and therefore a decision on new equipment needed to be taken by the end of the December 2010. As this has not been possible an interim arrangement to continue using the existing equipment will be required. Such an arrangement is set out in paragraph 7.24 below.

### **Proposed contract**

7.16. The contract is divided into four sections covering: equipment layout and supply; repair and maintenance; supporting IT Hardware and Software and support services for sales, training and customer retention.

7.17. Equipment Supply and Layout - The proposals put forward have ensured that in addition to the supply of modern, high quality equipment the layouts of the fitness suites will be updated and the general environment refurbished to be fresh and inviting for customers. The works will include the existing youth "Shokk" gym at Tottenham Green. The Shokk gym usage has declined by 50% over the last two years through deteriorating and failing equipment. The proposals will reinvigorate the space for youth access whilst also broadening its appeal to other key groups such as older people, gender specific, and disability.

7.18. Repair and Maintenance -The specification for repairs and maintenance of the equipment now includes faster repair times and higher targets for first time fixes. The contract will be all inclusive of all wear and tear items, including seats and pads on all machines ensuring that there is no point over the five years where equipment is not maintained to the highest standards. Most importantly the inconvenience to the customer is minimised at all times.

- 7.19. IT Hardware and Support - Every user of the fitness suite requires an induction and an exercise programme to maximise the benefit they can get from their time using the facilities. The IT hardware and software allows them to do this. The new software will also allow customers to track activity elsewhere in the leisure centre or at home. The software will also let the gym staff track peoples risk of drop out from exercise and allow for early intervention prior to people stopping exercise. This will improve the retention rate of people in exercise (currently 46% of members retained after 12 months) and ultimately the income received by the Council (each 1% increase in the retention rate delivers £11,000 increase in annual income).
- 7.20. Support Services - The successful Tenderer will provide further support to the Council in the areas of membership sales, staff training and customer retention programmes. These support services will ensure that the Council has the skills and resources to meet the increased income levels predicted. Staff across many areas in the leisure centres will be involved in a training programme that will engage staff in developing initiatives to improve customer service and cut out redundant or wasteful elements of current process or procedures. The customer retention support will ensure that customers aspirations are identified at the point they join and customers are helped by staff to ensure they achieve their aspirations and are retained in exercise.
- 7.21. The combination of all four elements within the proposed contract will mean that the Council can achieve cost certainty over the next five years in these areas whilst also generating additional income by people being more active on a regular basis.
- 7.22. The performance of the contract will be monitored through regular Monthly meetings between the Sports and Leisure Services and Technogym. Key performance measures will be drawn from the contract documentation and reviewed against actual performance. Each of the four areas of the contract will be reviewed to ensure that targets are being met and to agree remedial corrective action should standards fall below the acceptable standards. Six monthly meetings will be held with the regional management team and the after sales management team. An annual review will take place with the Clubs Division Manager and the National Head of Servicing.
- 7.23. The Council is considering future management models and should a future decision be taken to revise the delivery of the service, the contract will contain provisions to allow for the contract to be novated or sub leased.
- 7.24. The existing lease arrangement comes to an end 31 March 2011 and owing to unforeseen delays in the procurement the new equipment would be unlikely to arrive on site until May 2011. Therefore, to bridge the gap between the current lease and the recommended new lease, it is proposed that at the end of March the Council pay the settlement fee for the existing equipment from the leasing company at a value of £35,000. This equipment would be traded in with the successful company when the new equipment arrived in May. This arrangement would bridge the gap in the timescales of the two leases and would financially benefit the Council as set out in 13.7 to 13.10 of Part B of this

report. If the Cabinet Procurement Committee were to approve the recommendations in this report, this arrangement to purchase the current equipment would be formalised under delegated authority by the Director of Adults Culture and Community Services by way of waiver and award pursuant to CSO 7.02 and 11.02.

#### 7.25. Benefits of Renewal over Retaining the existing equipment

- The Council will achieve cost certainty over the next five years of the cost of providing fitness suite equipment and the maintenance and repair of equipment and IT systems.
- The two main fitness suites will be refurbished and the dilapidated Shokk gym will be put back into operation able to cater for many more priority groups.
- The IT Hardware and Software systems provide greater understanding of the customers' needs and aspirations.
- The Council will be supported in attempts to attract more users into the leisure centres and to retain them in physical activity exercise over the long term
- Staff will be invested in through training to improve the standard and quality of the service the customer receives and in turn raising staff morale and pride in their job.
- Income generated by the leisure centres over the next five years will increase.

### **8. Chief Financial Officer Comments**

- 8.1 This report requests approval to award a 5 year contract for the provision of Fitness Suite Equipment. An alternative option would be to retain and maintain the existing equipment. This latter option is likely to give rise to a decline in income. Financially the Council would be no worse off with either the proposed contract award or retaining the existing equipment. However research indicates the potential to improve income up to £1.4m if the contract is awarded whilst also increasing the asset value of the Sports and Leisure portfolio.
- 8.2 Due to the delay in considering this report the new equipment will not be available until mid May 2011. The report proposes that Recreation Services purchase the existing equipment with the intention of selling it on receipt of new equipment and anticipates that the sale price will exceed the cost of purchase.
- 8.3 Enhancing the existing equipment and maintaining or improving the customer base will ensure that the services remain attractive proposition should there be any future decision to outsource this service. However, the service must ensure that the conditions of this lease allow for it to be novated to a third party.

### **9. Head of Legal Services Comments**



- 9.1. This report seeks approval for a contract for the provision of Fitness Suite Equipment and associated Maintenance and Support Services at Park Road and Tottenham Green Leisure Centres to be awarded to the contractor named in Part B of this report.
- 9.2. The value of this contract is in excess of EU supplies and services thresholds (currently £156,442.00) and as such the full EU procurement rules are applicable.
- 9.3. The contract has been procured following a European tendering exercise in accordance with the Public Contracts Regulations 2006 and the Council's CSO's. An OJEU notice was issued and the contract was tendered using the restricted procedure.
- 9.4. The contractor named in Part B of this report has been recommended for award on the basis that it submitted the most economically advantageous tender in accordance with CSO 11.01 b).
- 9.5. The value of this contract exceeds £250,000 and therefore in accordance with CSO 11.03 only Cabinet Procurement Committee has power to approve the recommendation and award the contract.
- 9.6. The contract is for a period of five years. The contract contains a break clause permitting the Council to terminate the agreement at any time after the 3<sup>rd</sup> anniversary upon 6 months notice, in addition to provisions for assignment by novation or sub-contracting by the Council, allowing flexibility in times of financial uncertainty that the Council is currently facing.
- 9.7. The award of this contract is a key decision. In accordance with CSO 11.04 this necessitates inclusion on the Council's Forward Plan. Adult, Culture & Community Services Directorate have confirmed that this contract is included in the Forward Plan.
- 9.8. The Head of Legal Services confirms that there are no legal reasons preventing the Cabinet Procurement Committee from approving the recommendations in this report.

#### **10. Head of Procurement Comments –[ Required for Procurement Committee]**

- 10.1 The Procurement process has been carried out in line with the Procurement Code of Practice.
- 10.2 The recommendation gives the Council the Most Economically Advantageous tender (MEAT) from the procurement process and enables the Council to maximise its income generation potential over the next 5 years. Although the 90

days acceptance period has expired both bidders have agreed to honour their bids until Feb 2011.

10.3 The lease has been established so that is able to be novated, allowing flexibility in future service management options.

10.4 Regular contract monitoring is being put in place with key performance indicators being taken from the contract documentation; this will enable the identification and resolution of any issues as they arise.

## **11. Consultation**

11.1. Leisure Centre users have provided feedback through the Services monthly Customer Satisfaction Survey as well as providing specific feedback on the type of fitness suites they would like the Council to operate.

11.2. The PCT have provided ongoing input into the fitness suites operation to fulfil the needs of the GP referral Active for Life Scheme.

11.3. Staff have fed in to the development of the specification on a number of occasions to ensure it best reflects the needs of the customer.

## **12. Service Financial Comments**

12.1. The recommended option presents an opportunity to secure an income growth of £1.4m over 5 years, which will more than offset the higher expenditure outlay (an additional £250k over 5 years).

12.2. The tenders have remained open for acceptance for a period of 90 days. A decision on the 3<sup>rd</sup> February and a notification of the Award on the 11<sup>th</sup> Feb exceeds the 90 day period. However, the companies concerned have each indicated that the tenders will remain fixed based on the current tenders.

12.3. If a decision is delayed beyond the 3<sup>rd</sup> February then the current tenders would lapse. Should the tenders lapse then the companies may wish to apply any price increase that has occurred since the tenders were returned thus increasing the overall cost to the Council.

12.4. Should this prove not in the Councils best interest then the contract would need to be retendered with a delay of approximately six months whilst the EU procurement process was undertaken.

## **13. Use of appendices /Tables and photographs**

13.1. Appendix A – Part B Tender Analysis and 3D layouts of proposed fitness suites.

## **14. Local Government (Access to Information) Act 1985**

### Background documents

- 14.1. Invitation to Tender for the Contract
- 14.2. Tender Submissions from each company
- 14.3. Tender evaluation documentation
  
- 14.4. This report contains exempt and non exempt information. Exempt information is contained in Part B of this report and NOT FOR PUBLICATION. The exempt information is under the following category (identified in the amended schedule 12A of the Local Government Act 1972)  
(3) Information relating to the financial or business affairs of any particular person (including the authority holding that information)