

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL
EXECUTIVE MANAGEMENT TEAM'S REPORT TO THE
CABINET

Date: 10th July 2019

1. **REPORT TITLE** Jubilee2 Update
- Submitted by:** Executive Director Operational Services-Dave Adams
- Portfolio:** Leisure, Culture & Heritage
- Ward(s) affected:** All

Purpose of the Report

This report addresses three aspects of the operation & performance of Jubilee2: budget deficit; future marketing; and building conditions. Its purpose is to update Members in relation to these matters and proposals to procure ongoing marketing support to ensure the centre is fit for purpose, remains competitive in the local area, and in order remove the budget deficit and operational subsidy.

Recommendations

- That Members receive the information and endorse the approach outlined in this report to address the budget deficit.
- That Members receive the information and endorse the approach outlined in this report to have effective repairs undertaken in the most economically efficient manner and request a further report in relation to the building's latent defects at a future Cabinet meeting.
- That the Executive Director Operational Services is given the authority to enter into a contract to secure a partnership for marketing support with Alliance Leisure for a period of four years.
- That the Executive Director Operational Services is given the authority to enter into a contract to secure a partnership for commercial advertising sales with Strategi Solutions for a period of three years.
- That Members approve funding for remedial works as set out in the recommendation in the Confidential Appendix.

Reason

The Council made a significant capital investment in providing Jubilee2 and to protect this investment for the benefit of the health and wellbeing of residents of the Borough maintaining the facilities in good condition and continuing to attract significant footfall to recover costs is crucial to the Council's cross-cutting objectives for its communities.

1.0 **Background**

- 1.1 There are over 3,000 active members at Jubilee2 who, along with pay and play visitors and clubs, make ten thousand to twelve thousand visits to the centre each week. Jubilee2 is a large facility at 4,800m² providing swimming pools, climbing walls, a health suite, gym and

three studios. It is renowned for its aquatics and fitness programmes and broad appeal to all age groups, reflecting the Borough's population. The facility has had an ongoing problem with building defects since its opening in 2012, which detract from the facility and the operating subsidy is increasing year on year due to both higher costs and income shortfalls.

- 1.2 It has been a priority of the current administration to deal with the longstanding building defects. This report addresses three separate, but closely related, issues – addressing the budget deficit, improving income through more effective marketing, and addressing the building defects. Due to the contractual matters which lie at the heart of the build, the building defects are dealt with in a confidential appendix.

Budget Deficit

- 1.3 In spite of the high visitor numbers costs have risen above budget particularly in relation to energy consumption and cover for staff sickness. An action plan has been prepared by officers to address the current financial challenges. Actions fall in to two categories: those that reduce expenditure and those that generate income.
- 1.4 The budget outturn for 2018/19 was an overspend of £0.370m. The actions detailed below will reduce this overspend to £0.217m during 2019/20, and will further reduce this to £0.155m during 2020/21.
- 1.5 Expenditure Control:
- Improved staff sickness absence as a result of the Council's new policy which is taking effect this financial year
 - The heat recovery system for the main pool has been replaced
 - On site chlorine generation (from salt) is being installed to reduce chemical use
 - An energy audit has been commissioned
- 1.6 Income generation:
- A specification is being prepared for a new gym layout, to facilitate the provision of small group classes and personal training, supported by heart-rate monitoring and to replace the gym equipment which will have been in service for 8 years
 - New fees have been negotiated with the swimming club
 - Improvements to the system for collecting default membership subscriptions
 - The activity room has been upgraded with mirrors and barre to accommodate additional classes
- 1.7 In addition to these items, consideration has been given to selling advertising space on the various screens which are deployed around the Jubilee 2 centre. A soft market test exercise confirmed that there is the opportunity to drive additional income through selling advertising space on the information screens at Jubilee2. This opportunity has been advertised nationally through contracts finder.
- 1.8 Strategi Solutions Ltd. based in Newcastle under Lyme was the only organisation that submitted a tender for this opportunity. Following an evaluation of their tender officers are proposing to enter into a three year contract to develop commercial advertising opportunities at Jubilee2.
- 1.9 Under the contract, and at their cost, Strategi Solutions will be responsible for:

- Identifying opportunities, creating a pricing structure for advertising and developing a database of potential organisations who may be interested in advertising at Jubilee2.
 - Selling the advertising space
 - Producing the art work for the adverts.
 - Collection of advertising revenue
 - Drafting of advertising agreements
- 1.10 Under the contract the Council will be responsible for:
- Maintaining the information screens and infrastructure.
 - Uploading and downloading adverts on to the information screens
- 1.11 The partnership with Strategi Solutions is based on an income share model under which both parties will receive fifty percent of any advertising revenue generated exclusive of VAT. Any income owed to the Council will be payable quarterly in arrears. This income will support the reduction of the operational subsidy at Jubilee2.
- 1.12 There is limited risk for the Council to take the partnership forward as any costs associated to the Council's obligations under the contract will be met from existing revenue budgets. Strategi Solutions Ltd have has a good track record of working with the Council. They are currently appointed to sell advertising on the Councils external advertising hoardings on a similar basis and have achieved their obligations under the contract.
- 1.13 Through this report, Cabinet is invited to approve entering into a contract with Strategi Solutions Ltd.

2 Future marketing

- 2.1 Jubilee2 is a busy centre attracting over half a million visitors per annum. The financial viability of the centre is dependent on attracting and retaining an optimum number of members. Membership numbers have seen a stepped reduction over recent periods and in spite of increased local competition it is calculated that there is still latent demand to increase membership numbers at Jubilee2.
- 2.2 The need to improve marketing support was identified in a recently undertaken strategic marketing audit. The audit identified a number of key areas for improvement specific to Jubilee2:
- The creation of a fully integrated marketing strategy to include a public relations (PR) calendar, events programme, and seasonal campaigns
 - Improve communication to offer customers more choice in terms of how they wish to be contacted about offers and information.
 - Social media focus across all relevant platforms engaging with members and potential members online.
 - Rebrand Jubilee2 so that the services on offer are clearly identifiable and inclusive whilst ensuring that all future communications can be delivered in a consistent tone of voice.
 - Tailor marketing campaigns and promotions to the specific demographic profiles. This will ensure that the campaigns etc. will have a maximum impact though the use of appropriate imagery/ information, and communication channels as opposed to adopting a one size fits all approach.
 - Undertake an evaluation of marketing activities to ascertain the effectiveness of all marketing and PR activities, thus ensuring the use of marketing resources have the maximum impact.

- 2.3 The marketing audit identified a number of business development/marketing opportunities that Jubilee2 is not exploiting (as detailed above). Discussions with the Council's Head of Communications have made it apparent that the authority's in-house team has some of the skills and expertise available to enable it to work in support of, and in partnership with, an external agency. However, some skills are not available – such as bespoke leisure and cultural marketing and sales expertise. For that reason it seems appropriate to secure a partnership with Alliance Leisure and for the Head of Communications to be part of a working group which manages the contract to ensure the authority fully utilises the skills and capabilities of Alliance Leisure but also ensure in-house resources are used to best effect to support this important area of work.
- 2.4 To address the issues identified by the marketing audit a soft market test was undertaken, following which two proposals were received and evaluated. Company A had an overall score of 96.8% with a projected return on marketing spend of £1.50 for every £1.00 spent. Company B had a score of 85% with a projected return on marketing spend of £1.61. Company B required a fixed annual fee element paid monthly in advance and Company A required no annual upfront fee but do require payment through an income share arrangement on a performance related basis. It is therefore recommend that Company A (Alliance Leisure) is appointed.
- 2.5 Alliance Leisure has a good track record of working with other local authorities, leisure trusts and private operators leading to income growth to the mutual benefit of all parties concerned. They are currently working with over 250 facilities nationally.
- 2.6 Based on Alliance Leisure's proposal it is clear that there is the potential to generate additional income through defined marketing and customer retention strategies, improved processes, targeted campaigns, better use and management of social media accounts, and sales and customer service training.
- 2.7 The partnership with Alliance Leisure is based on a phased income share model (Gym memberships only), protecting existing income across the service. As the partnership generates additional income this would be shared on agreed monthly income thresholds.
- 2.8 There is limited risk for the Council to take the partnership forward. All investment costs, including marketing collateral, will be met for the duration of the agreement by Alliance Leisure. It is in the best interest of Alliance Leisure to invest their time and resources into the marketing partnership as the greater increase in income (above the base level gym memberships and inductions) the greater their income share will be.
- 2.9 On this basis it is proposed that a Contract is entered into with Alliance Leisure at zero direct cost to the Council for a period four years.
- 2.10 Following consultation with the Council's Business Improvement Manager a valid procurement approach is to procure Alliance Leisure under the UK Leisure Framework Agreement (hosted by Denbighshire County Council).
- 2.11 The Contract will be managed by the Council's Sport and Active Lifestyles Manager, in consultation with relevant heads of service. This will ensure that Jubilee2 receives the best in house and external marketing support avoiding duplication of services.
- 2.12 The Contract will be managed in a way to reduce the operational subsidy at Jubilee2, through increased income from memberships and inductions. Sitting alongside the income share agreement is a further Action Plan for the managers at Jubilee2 to address recovery of income and control of expenditure in other areas of the centre's performance in line with agreed budgets.

3 Building Defects

- 3.1 The Council appointed Morgan Sindall to design and build Jubilee2, which was completed in December 2011 and opened to the public in January 2012, with the Official Opening by HRH The Princess Royal in April 2012. Throughout 2012 a number of building defects were passed to Morgan Sindall and dealt with under the 12 month warranty, provided by the contract.
- 3.2 In September 2014 the teaching pool hydraulic floor failed and the Council was forced to commission, pay for the clean-up and repair and address design failure of the original installation and specify the use of an appropriate bio-degradable oil, as Morgan Sindall refused to recognise this issue as a latent defect.
- 3.3 A full list of other apparent latent defects was forwarded to Morgan Sindall later in 2014. In spite of site meetings with Morgan Sindall and their architects, from this list two significant defects remain active today and continue to have a detrimental effect on the operation: The roof over the main staircase leaks and water from the first floor health suite leaks into the swimming pool family changing cubicles below.
- 3.4 The Council has commissioned an appropriately qualified organisation to establish the cause of the health suite leaks and, subsequent to their report, the Chief Executive directed that the health suite be taken out of service until remedial works and a planned refit could be carried out. This decision was in the interests of health and safety, and to prevent further damage to the fabric of the building.
- 3.5 The scale of building defects, and officers' proposed strategy for addressing the defects with the contractor, are set out in the confidential appendix.

5.0 **Proposal**

- 5.1 To continue to attract significant footfall and to recover costs Members endorse the approach outlined in this report to reduce the budget deficit and operational subsidy.
- 5.2 To protect the investment made by the Council in Jubilee2 for the benefit of the health and wellbeing of residents of the Borough and to maintain the facilities in good condition Members endorse the approach outlined in this report to effect repairs in the most economically efficient manner.
- 5.2 The Executive Director Operational Services is given the authority to enter into a contract to secure a partnership for marketing support with Alliance Leisure for a period of four years, and with Strategi Solutions for commercial advertising revenue for a period of three years.

6.0 **Reason for Preferred Solution**

- 6.1 Jubilee2 operates in a commercially competitive environment where the borough's residents have a significant level of choice of where and how to access sport and physical activity opportunities. Jubilee2 in particular continues to attract a high footfall whilst the Council seeks to address outstanding building defects. Officers believe that partnering with Alliance Leisure and Strategi Solutions now and through using Alliance Leisure's demonstrable knowledge within the leisure industry and resources there is the opportunity to grow revenue particularly as building defects are addressed thus supporting the Council's medium term financial strategy.

7.0 **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

7.1 To ensure that high quality services are provided to the Borough's residents whilst continuing to support their health and wellbeing.

8.0 **Legal and Statutory Implications**

8.1 There are clear legal implications in relation to the latent defect in the design and build contract for Jubilee2. The issues are being pursued with appropriate professional advice in relation to negligence and contractual obligations.

8.2 The procurement approach concerning the appointment of Alliance Leisure and Strategi Solutions is in accordance with best practice and as a result there is minimal risk to the Council of a challenge being made.

9.0 **Equality Impact Assessment**

9.1 Prior to the closure of the health suite there was restricted access to this area from the swimming pool due to damage to the platform lift linking the two areas caused by the omission of tanking to the health suite.

9.2 There are no equality implications arising directly for the Council as a result of contracts being awarded to Alliance Leisure and Strategi Solutions.

10.0 **Financial and Resource Implications**

10.1 Members are referred to the confidential appendix of this report for the financial implications regarding the estimated cost of stripping out and reconstruction of the health suite.

10.2 Through working in partnership with Alliance Leisure there is the opportunity to increase revenue at Jubilee2 over the duration of the proposed four year contract. The base level income from memberships and inductions will be retained by the Council with any additional sales being divided on the agreed income share basis.

10.3 Alliance Leisure's proposal to the Council has projected ten percent growth in membership in year one and seven percent in year two totalling an additional 523 members, retaining this level of membership in years three and four of the contract.

10.4 Strategi Solution's proposal to the Council projects that they will achieve £57,600 in advertising revenue in the first full year and maintain this in years two and three of the contract. This income will be shared equally between Strategi Solutions Ltd and the Council exclusive of VAT payable quarterly in arrears.

11.0 **Major Risks**

11.1 In relation to the building latent defects, there are significant financial and reputational risks as service disruption takes place to address them. There are shorter term health and safety risks (in particular slips) which the staff team at Jubilee2 effectively manage through on-going dynamic risk assessment.

11.2 The partnership agreements with Alliance Leisure and Strategi Solutions pose no financial risk to the authority given that the current base level of income is protected.

11.3 Should Alliance Leisure fail to meet the additional income targets identified in their proposal, the contract may be terminated by either party at no direct cost to the Council. However Jubilee2 will be in a much better position to trade on a more commercial footing as a result of introducing new campaigns, improved marketing and retention strategies, and staff training.

12.0 **Key Decision Information**

12.1 This is a key decision and appears on the Councils forward plan.

13.0 **Earlier Cabinet/Committee Resolution**

13.1 None

14.0 **List of Appendices**

14.1 None

15.0 **Background Papers**

15.1 PR and marketing Audit.

15.2 Soft Market Testing Exercise.