

## **REPORT TO CO-ORDINATING OVERVIEW AND SCRUTINY COMMITTEE**

**24 SEPTEMBER 2013**

### **KEELE GOLF CENTRE, KEELE ROAD, NEWCASTLE-UNDER-LYME – SECURING A SPECIALIST GOLF COMPANY OPERATOR TO TAKE ON A NEW LEASE**

#### **Purpose of Report:**

To enable members to review the tender process undertaken to secure a specialist golf company operator to take on a new lease at Keele Golf Centre with a view to making appropriate recommendations to Cabinet.

#### **Recommendations:**

- a) That the Scrutiny Committee considers the overall tender process in light of the objective of securing a specialist golf company operator to take on a new lease at Keele Golf Centre.
- b) That the committee make recommendations to the Cabinet in respect of the appropriateness of the overall process undertaken.

#### **Introduction:**

Members will see below the substantive content of a draft report that has been prepared for the Cabinet decision-making purposes. Members are invited to review this report along with the papers previously circulated in order that an informed response may be provided to Cabinet.

Members of this committee should be aware that the Active and Cohesive Overview and Scrutiny Committee will meet on 3 October 2013 to consider the golf development and course grounds maintenance aspects of the tender process.

In addition, the financial and value-for-money issues of the process will be reviewed at a special meeting of the Transformation and Resources Overview and Scrutiny Committee on 9 October 2013.

## DRAFT REPORT TO CABINET

16<sup>th</sup> October 2013

### KEELE GOLF CENTRE, KEELE ROAD, NEWCASTLE-UNDER-LYME – SECURING A SPECIALIST GOLF COMPANY OPERATOR TO TAKE ON A NEW LEASE

**Submitted by:** Executive Director, Regeneration & Development

**Portfolio:** Economic Development, Regeneration and Town Centres

**Ward(s) affected:** Keele, Silverdale and Parksite

#### **Purpose of the Report**

To obtain Cabinet's decision on the selection of a new operator and approval to the grant of a new lease of the golf centre at Keele on the terms outlined in this report.

#### **Recommendation(s)**

- 1. That members accept the outcome of the bidding process and the offer from Company B for a new 25 year full repairing and insuring lease containing options to break with rent based upon a percentage of turnover.**
- 2. That officers be authorised to complete a new lease with Company B on the terms summarised both within the report and at Appendix 3 (the appendix is not for publication as it contains exempt information as defined in paragraph 3 of Schedule 12A of Part I of the Local Government Act 1972).**

#### **Reasons**

Following a competitive bidding process, Company B submitted the best overall offer to justify the Council offering a lease on the terms described in the report. Additionally the offer from Company B is considered to represent market rental value and will provide for much needed investment in improvements to the golf course and premises.

The leasehold disposal is in accordance with both the Council's Asset Management Strategy and Capital Strategy.

#### **1. Background**

- 1.1. The Council managed and operated a municipal golf activity at Keele until 2003 after which time it was considered appropriate to do so by way of a lease to a specialist commercial golf operator. Keele Golf Centre Limited (K.G.C.Ltd), was subsequently selected as the tenant operator and on 1<sup>st</sup> April 2003 was granted a 25 year lease of the property.**

- 1.2. Following several years of difficult trading conditions K.G.C.Ltd. was placed into creditors' voluntary liquidation on 21 March 2013. The Liquidator, in discharging his responsibilities, took steps to formally disclaim the commercial lease in relation to the golf centre with effect from 1<sup>st</sup> May 2013.
- 1.3. After the tenant's demise, Members instructed that interim course maintenance and management arrangements were established to enable ongoing pay-as-you-play municipal golf whilst a new tenant operator was sought.

## **2. Issues**

- 2.1. A group of officers, from relevant professional discipline(s) and having appropriate experience, was set up to work under the direction of E.M.T. with the aim of securing an operator able to deliver a commercially viable municipal golf offer at Keele Golf Course. A work programme and timeline was established with officers proceeding to implement a formal, competitive two-stage 'hybrid procurement process'.
- 2.2. The first stage of the process was the production of an Expression of Interest Questionnaire (E.I.Q.) the purpose of which was to establish and confirm interested parties bona fides and abilities to operate the Keele Golf Centre. A copy of the questionnaire can be found at Appendix 1. (NB. Scrutiny Committee received latter in main agenda).
- 2.3. Following production of the E.I.Q. advertisements were placed with appropriate national property and leisure publications and their associated marketing websites. Interested parties were subsequently sent a copy of the E.I.Q. for completion and return by 12<sup>th</sup> July 2013.
- 2.4. Whilst twelve E.I.Q.s were sent out, only three, being from;
  - (i) Company A
  - (ii) Company B and;
  - (iii) Company Cwere completed and returned by the closing date.

(NB. The names of the companies have not been disclosed for reasons of commercial sensitivity and in view of the fact that the decision-making process is not yet complete).
- 2.5. The completed returns were evaluated (including financial & company 'health checks.') by officers. All were found to satisfy the stage 1, E.I.Q. selection criteria and in consultation with relevant members (23<sup>rd</sup> July 2013) it was decided to invite all three to submit stage 2 bids.
- 2.6. A stage 2 documentation pack, comprising an 'Invitation to Submit an Offer for Lease' was prepared in liaison with members. In summary, set out within the document were a number of options and key required outputs, upon which applicants were asked to make a bid. These options related to the length of lease (10 or 25 years) and basis for deriving annual rental, being either (i) a lump sum, (ii) percentage of turnover or a combination of (i) & (ii).

The selection criteria for evaluating bids were twofold, financial and quality (the detail is set out in Appendix 3). (Again, previously circulated to Members of this Scrutiny Committee).

2.7. The stage 2 documentation packs were sent out to the three short listed bidders 25<sup>th</sup> July 2013 with completed returns required by 19<sup>th</sup> August 2013.

2.8. Two bids were received by the closing date, from Company A and Company B.

The third invitee, Company C advised it had made the commercial decision not to bid.

2.9. An officer evaluation panel, began scoring the submissions in line with stage 2 selection criteria. Initial moderation of scores (3rd September 2013) by the panel identified the need for responses from both bidders to various issues within their submissions that required clarification. These queries and subsequent responses were received at presentation interviews on 9<sup>th</sup> September 2013. The panel's moderated scores were then subjected to critical review by the Executive Director of Resources & Support Services.

### **3. Options for consideration**

3.1 The key options for Member's consideration are:

- (a) To grant a 10 year full repairing and insuring lease
- (b) To grant a 25 year full repairing and insuring lease with no option(s) to break
- (c) To grant a 25 year full repairing and insuring lease containing option(s) to break.

In the case of (a), (b) and (c) above for rental payments to be either;

- (i) A fixed annual sum.
- (ii) A percentage of gross (annual) turnover.
- (iii) A combination of (i) and (ii) above.

### **4. Proposal(s)**

4.1 The two bidders submitted financial proposals (supported by business plans) based upon the key options referred to at 3.1 above and which are set out in confidential appendix 3. Based on submissions it can be seen that the offer(s) from Company B provide a higher annual revenue stream, irrespective of the length of lease or inclusion / exclusion of an option(s) to break.

4.2 In addition both bidders have provided responses as to how they would deal with all of the quality elements contained in the stage 2 submission pack, i.e. centre management, maintenance & development. Their detailed responses covered buildings and course maintenance and repair, day to day operational management, proposals for future improvements, developments and confirmation of agreement to Heads of Terms.

4.3 In the case of a 25 year lease, the rationale for the inclusion of an option to break in is to protect the respective parties' interests, i.e. whereby they are permitted to bring the agreement to an end in certain reasonably foreseen, prescribed circumstances. – see example referred to in the stage 2 pack, 'Invitation to Submit an Offer for Lease'. It is anticipated that the circumstances giving rise to the council deciding to exercise such an option

would only occur where there is opportunity of realising significant (most probably financial) benefits from doing so. It should be noted that both applicants have advised that they would require a level of re-imbursement of monies invested on repairs if the council decides to exercise its option to break after 10+ years. The confidential appendix 3 will explain this matter in further detail.

4.4 The officer evaluation panel have carefully considered all of the information contained within the bidders' submissions and clarification responses and scored this according to the stated selection criteria.

4.5 The panel's moderated scores are as follows;

<b>Name</b>	<b>Weighted Quality Score</b>	<b>Weighted Financial Score</b>	<b>Total</b>
Company A	156	168	324
Company B	152	219	371

**5. Reasons for Preferred Solution**

5.1 It can be seen from 4.5 above that from an evaluated 'quality scored bid perspective' there is little between the two submissions. However the bid from Company B provides the council with a significantly higher rental income stream throughout the term of the lease, irrespective of its length and particularly so in the case of a rent based on turnover. Furthermore the submission is more aspirational in terms of ideas and proposals for the development of the course and golf centre offer.

**6. Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

6.1 The proposed arrangement should contribute positively towards the Council's priorities relating to the creation of both Active and Cohesive Communities and a Borough of Opportunity.

**7. Legal and Statutory Implications**

7.1 The Council is not under any statutory duty as regards the provision of golf but is under a duty to seek 'best consideration' when disposing of any interest in land.

**8. Equality Impact Assessment**

8.1 No discernable differential impact has been identified by the leasehold disposal of the golf centre.

**9. Financial and Resource Implications**

9.1 An annual rental income stream will be derived from the leasehold disposal of the golf centre and the grant of a 25-year, as opposed to 10 year lease, means that this should be obtained for a longer period.

- 9.2 The disposal of the golf centre by way of lease will relieve the council of having to meet the net costs arising from the interim management and maintenance arrangements.
- 9.3 The grant of a 25 year lease, as opposed to 10 years provides encouragement for the tenant to invest in improvements. Hence there is increased opportunity for the tenant to obtain a return on its investment and from which the council will also benefit in the case of a turnover rent. Additionally the preferred bidder has proposed a hybrid option which will provide the Council with a guaranteed minimum annual rental income regardless of actual turnover

**10. Major Risks**

- 10.1 Delay in securing a new tenant operator will result in the council having to meet the net costs of continuing with any continuing interim course maintenance and management arrangements.
- 10.2 Failure to include an option to break in the grant of a new 25 year lease would delay or may event prevent the opportunity of a future change of circumstances being realised.
- 10.3 Failure to secure a competent golf operator would jeopardise the development of golf for the benefit of the local community.

**11. Key Decision Information**

- 11.1 This leasehold disposal will, upon completion, provide an annual revenue receipt for the council.