

**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: Primarily Economic Development, Planning and Town Centres (as a lease disposal / property issue); Culture and Leisure (from a service delivery perspective) and; Finance and Resources (from a procurement and overall resources perspective).

Ward(s) affected: Directly - Keele, Silverdale and Parkside; indirectly – all wards

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complete a new lease with Company B on the terms summarised both within the report and at Appendix 3 (the appendix is not for publication as it contains exempt information as defined in paragraph 3 of Schedule 12A of Part I of the Local Government Act 1972).
3. That the decision to extend the interim management and maintenance arrangements be noted.

Decision required

Taking account of both the officers' recommendations and the views of the various Overview and Scrutiny Committees, are members satisfied with the overall process and content to accept the officers' recommendations?

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 necessary and appropriate 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 1st 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 1st May 2013.
- 1.3. In view of the above, 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. The need for interim arrangements was at that time envisaged to be a period of up to six months, to the end of October 2013. In order to meet the various stages of the process to establish a new operator for the course a timetable was established with the aim to install the new operator at the earliest possible time. That date is currently 3rd December 2013 and allows for the completion of legal formalities and operational gearing up following a decision being made at your meeting.
- 1.4. Therefore the need for an extension to the temporary arrangements was identified, and in order to provide service continuity and ensure the facilities remains available for the public to use up to the point of handover, the current arrangement management and maintenance was extended, following consultation with the relevant Portfolio Holders, by one month.

2. Issues

- 2.1. A group of officers, from relevant professional discipline(s) and with appropriate experience, was set up to work under the direction of the Executive Management Team 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 the bona fides and abilities of the interested parties to provide and operate the Keele Golf Centre. A copy of the questionnaire was shared with members of the various Overview and Scrutiny Committees and is available on request.

- 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 12th July 2013.
- 2.4. Whilst twelve E.I.Q.s were sent out, only three were completed and returned by the closing date. being from:
- (i) Company A
 - (ii) Company B
 - (iii) Company C
- 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 (23rd July 2013) it was decided to invite all three parties 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 relevant members. The key content of this pack was shared with members of the various Overview and Scrutiny Committees and is available on request. In summary the pack provided applicants with:
- General instructions for submitting an offer to lease the golf centre (p3)
 - A description of the property being let (p.11)
 - An outline of the main lease terms (p.13)
 - Details of criteria which the applicant had to satisfy and upon which selection would be based (p19). The primary selection criteria for evaluating bids were twofold, financial and quality.
 - Appendices included; an operational management schedule (p26); a report on the condition of the course(s) (p28); a building condition schedule (p29).
- 2.7. Also set out within the document pack 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) lump sum, (ii) percentage turnover or combination of (i) and (ii).
- 2.8. The stage 2 documentation packs were sent out to the three short listed bidders 25th July 2013 with completed returns required by 19th August 2013. Two bids were received by the closing date; from Company A and Company B. The third invitee, Company C, advised it had made a 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 9th September 2013. The panel's moderated scores were then subjected to critical review by the Executive Director of Finance and Resources and Support Services.

- 2.10. In view of the nature of this matter it has been referred for consideration to the Council's Overview and Scrutiny process in order that their views can be taken into account by Cabinet. In particular the Co-ordinating Committee reviewed the overall process at its meeting on 24 September 2013; the Active and Cohesive Overview and Scrutiny Committee reviewed the service-based issues (e.g. golf development and overall course improvement issues) at its meeting on 3 October 2013 and; the Transformation and Resources Overview and Scrutiny committee reviewed the matters relating to procurement and overall resource implications at a meeting on 9 October 2013.
- 2.11. It is intended that a short supplementary report will be circulated on 11 October 2013 summarising the views of the above Overview and Scrutiny Committees along with any officer responses as may be necessary.

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 the confidential appendix. 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 (see Confidential Appendix).

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;

Name	Weighted Quality Score	Weighted Financial Score	Total
Company A	156	168	324
Company B	152	219	371

4.6 Following this Cabinet meeting, and on the assumption that Members accept the officer recommendations, officers will proceed to finalise legal documentation with the aim of completing a new lease agreement by 2nd December 2013. Officers will liaise and work with the applicant in order to ensure an effective transition and smooth take over of the operation of the centre immediately as the new lease is completed.

4.7 Between now and the commencement of the new lease, the current interim management and maintenance arrangements will continue.

4.8 A multi-disciplinary officer team will be established for the purpose of monitoring tenant compliance with the conditions within the new lease. Monitoring meetings will take place with tenant, monthly for the first 6 months and thereafter quarterly. An annual review report on the outcome will be presented to Members.

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 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 (see Confidential Appendix).

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 a lease will relieve the council of having to meet the net costs arising from the management and maintenance arrangements.
- 9.3 The grant of a 25 year lease, as opposed to ten 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.
- 9.4 There will be no subsidy from the Council if any of the offers from Company B are accepted. The recommendation (preferred option) is Company B's proposals for a 25 year lease term with break options based upon a percentage of turnover as highlighted in the confidential appendix.
- 9.5 Further to the comments made in paras. 1.3 and 1.4 about interim management arrangements, the cost to the Council during the specified period will be less than has been the case over the summer period. Other costs, such as facilities management, utilities, rates etc are expected to remain broadly the same for that month as they have been in the preceding 6 months.
- 9.6 Whilst there is no specific approved budget for the net costs incurred during the temporary period, these will have been off-set by income received during the preceding 6 months and will continue to be through November as well as by any income from the operator for the remaining months of this financial year. Any remaining shortfall will be met from in-year savings or additional income.

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.

10.2 Failure to secure a competent golf operator would jeopardise the development of golf for the benefit of the local community.

11 **Previous decisions/reports**

11.1 Report to Cabinet - spring 2013

12 **Background documents**

12.1 Expression of Interest Questionnaire
Stage 2 document pack

13 **Appendices**

13.1 Confidential appendix containing summary of commercially-sensitive information relating to both bids

14 **Key Decision Information**

14.1 This leasehold disposal will, upon completion, provide an annual revenue receipt for the Council