

Decision Taker:	Acting Strategic Director of Environment, Sustainability and Leisure
Date:	23 October 2024
Report title:	Gateway 2 - Award of contract - Gym refurbishment
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	Not applicable
From:	Head of Leisure

RECOMMENDATION

1. That the Acting Strategic Director of Environment, Sustainability and Leisure approves the award of the works contract to NMCK Ltd for refurbishment of the leisure services gyms for the value of £748,539 starting on 4 November 2024 for a period of seven weeks, plus a contingency of £75,000 for any unforeseen works, and approves that the authority for contingency spending be delegated to the Head of Leisure for efficient management of unforeseen expenses.

BACKGROUND INFORMATION

2. The fitness equipment and design of the gymnasium layouts in the borough were last refreshed in 2015-18, with the exception of the recent opening of the new gymnasium located in Southwark Park Sports and Athletics Centre in 2021. In the years since their refurbishments, the industry has changed and the gymnasium layouts and equipment are not dated, but do not currently suit industry demands, and the space is not being used to its maximum potential. As a result, the layouts, equipment and designs of the gymnasiums are not meeting the needs of the users.
3. The refurbishment project is part of a wider gym enhancement programme that includes the renewal of exercise equipment. The procurement of the equipment has been concluded with orders placed. The installation of the equipment will be co-ordinated in the overall refurbishment programme.

Procurement project plan (Key Decision)

4.

Activity	Completed by/Complete by:
Forward Plan for Gateway 2 decision	02/09/2024
Briefed relevant cabinet member (over £100k)	26/09/2024
Approval of Gateway 1: Procurement Strategy Report	15/03/2024
Invitation to tender	14/08/2024
Closing date for return of tenders	30/08/2024
Completion of evaluation of tenders	11/09/2024
DCRB Review Gateway 2:	02/10/2024
Notification of forthcoming decision – Five clear working days	07/10/2024
Approval of Gateway 2: Contract Award Report	15/10/2024
Scrutiny Call-in period and notification of implementation of Gateway 2 decision	24/10/2024
Contract award	25/10/2024
Add to Contract Register	28/10/2024
Contract start	04/11/2024
Publication of award notice on Contracts Finder	12/11/2024
Contract completion date	23/12/2024

KEY ISSUES FOR CONSIDERATION

Description of procurement outcomes

5. Tenders

Firms invited	Quotation/Tender received	Price (10%)	Quality (90%)	Position
NMCK Ltd	Yes	10%	57	1
Bidder 2	Yes	9.98%	40	2
Bidder 3	No	N/A	N/A	N/A
Bidder 4	No	N/A	N/A	N/A
Bidder 5	No	N/A	N/A	N/A

Five tenders were sought as per the council's contract standing orders. Two contractors submitted compliant bids that were evaluated.

The procurement did not use the approved supplier list due to the specialist nature of the works requiring contractors with gym refurbishment experience.

Key/Non Key decisions

6. This report deals with a key decision.

Policy implications

7. The management of the leisure centres and delivery of excellent leisure services is directly linked to the council's commitment to a "Fairer future for all", in particular: "The Council want to break down barriers that prevent people from thriving in Southwark, so that whatever your background you can live a healthy life."
8. The Southwark Vision for 2030 sets their priorities and commitments to the people of Southwark until 2030

Three Principles

- Empowering people
- Reducing Inequalities
- Investing in Prevention

Six Goals

- Decent Home For All
 - Good Start In Life
 - Safer Southwark
 - Strong and Fair Economy
 - Staying Well
 - Healthy Environment
9. Leisure centre provision contributes to the delivery of these commitments. In particular, the refurbishment of our gyms aligns with key priorities within the Southwark 2030 Vision, particularly the focus on preventative health measures. By upgrading the gym facilities, we are investing in a resource that encourages more residents to engage in regular physical activity, which is crucial for preventing long-term health issues. This investment supports Southwark's commitment to promoting well-being and helping residents stay healthy by providing accessible spaces for exercise and self-care. Attracting more users through improved, inclusive facilities also aligns with our goal of early intervention, as we aim to empower residents to take control of their health and lead fulfilling lives. By dedicating time, capacity, and resources to

these improvements, we are reinforcing our commitment to creating a healthier, more resilient community for the long term.

Tender process

10. A prior tender for the gym refurbishment project was issued in July 2024 after a gym design process had been undertaken, which provided a specification for the refurbishment requirements. The initial budget for the refurbishment works was £500,000, as per the gateway 1. Prior to issuing the tender, a cost review exercise was undertaken where it became apparent that the budget was insufficient, and a revised notional budget was set at £750,000. The tender prices were estimated to be circa £850,000 plus. It was decided to go ahead with the tender process with the established design, and value engineer the winning submission to meet the budget and retain the design integrity.
11. One bid was received with a value of £1.7m. One bidder pulled out on the day of submission stating they could not get the project to work.
12. The options as how to progress were reviewed. Either value engineer the bid to get it to budget or abandon the procurement because it was unaffordable. It was decided to conduct value engineering on the bids to align with the budget.
13. Having assessed the design requirements and engaged with bidders a new tender process was undertaken. The design was engineered down to be less prescriptive and allow bidders to provide solutions for the project but to still retain the design integrity. A budget ceiling of £750,000 was set, all bids needed to come in or under the budget to be compliant and be assessed. A higher emphasis was put on quality (90%) so a thorough assessment of how bidders were to achieve the stated outcomes could be made.

Tender evaluation

14. The evaluation of the tenders was conducted by officers in line with the published evaluation methodology. The tender was subject to a 90:10 quality to cost ratio.
15. The quality was assessed through the submission of method statements covering the following areas:
 - Approach the main elements of the refurbishment: (55%)
 - Timber structures and mirrors
 - Lighting
 - Flooring
 - Decoration and signage
 - Programme plan (15%)
 - Approach to Health and Safety (10%)
 - Resources / contract delivery team (10%)

16. The summary of the quality evaluation of the two compliant bids received is noted below:

Bidder	Approach to the works (55%)	Programme (15%)	Health and Safety (10%)	Delivery team (10%)	Total (90%)
NMCK Ltd	33	12	6	6	57
Bidder 2	22	2	6	6	36

17. Price evaluation summary (10 marks)

Bidder	Value	Score
NMCK Ltd	£748,539	10
Bidder 2	£749,999	9.98

18. Overall tender evaluation outcome

Bidder	Price (10)	Quality (90)	Total (100)
NMCK Ltd	10	57	67
Bidder 2	9.98	40	49.98

Plans for the transition from the old to the new contract

19. N/A. It is a new contract.

Plans for monitoring and management of the contract

20. The council's contract register publishes the details of all contracts over £5,000 in value to meet the obligations of the Local Government Transparency Code. The Report Author must ensure that all appropriate details of this procurement are added to the contract register via the eProcurement System. Annual Performance Reports will be presented in line with the requirements of Contract Standing Orders. The project will be managed by the Commercial Manager of Leisure services to ensure delivery to programme and cost.

21. The contract will be managed collaboratively by the Service Fitness Manager and the Leisure Commercial Manager, who will work closely with an independent project manager not affiliated with NMCK, but integral to the budget management. To ensure seamless delivery and continuous oversight, regular meetings will be scheduled to monitor progress, address arising issues, and ensure that key performance indicators are consistently met. These meetings will involve performance evaluations, discussions on potential improvements, and consideration of any necessary contract modifications to optimize outcomes.

Identified risks for the new contract

Risk No	Risk Identified	Risk Level	Mitigation
1	Legal challenge	Low	The contract is under Public Contract Regulations 2015 threshold for works and has been procured in line with the council's contract standing order requirements
2	Implementation delays	medium	Early engagement with the winning bidder to enable supply chain conversations
3	Supplier's finances being affected and supplier going out of business.	Low	Financial checks have been carried out by the authority. The contractor is in a good financial position.
4	Project scope and overrun	Medium	The project will be managed by the Commercial manager of Leisure services to oversee any increase in the project scope is contained within the identified project contingencies.
5.	Not achieving the expected financial return	Low	<p>We have completed a comprehensive market analysis, giving us a clear understanding of local demand and competition. This ensures the refurbishment aligns with customer needs and preferences. We have also engaged with members and collected valuable feedback to guarantee the refurbishment addresses their needs, which will help improve retention.</p> <p>Additionally, we have developed a detailed financial plan with realistic ROI projections and cost controls. A strategic marketing plan is in place to promote the new features,</p>

			<p>including special promotions aimed at attracting new members and increasing revenue.</p> <p>Membership pricing will be optimised and adjusted to reflect the new offerings, with tiered options designed to appeal to a broader customer base.</p> <p>Post-refurbishment, we will closely monitor performance and track key metrics, allowing us to fine-tune strategies as needed to ensure the projected ROI is achieved.</p>
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Community, equalities (including socio-economic) and health impacts

Community impact statement

22. The procurement will have a positive impact on the community as it improves the quality of the overall gym experience, encouraging more users and affecting positively on the overall health and wellbeing of the community.

Equalities (including socio-economic) impact statement

23. The [Public Sector Equality Duty](#) has been considered and no additional consultation is required.

Health impact statement

24. The enhanced gym offering will have a positive impact on health as it provides a better gym offering to residents. The enhanced offering will also encourage additional gym users, increasing the overall health of the community.

Climate change implications

25. Energy loss will be reduced through the improved fabrication of the area and the installation of LED lighting.

Social Value considerations

26. The Public Services (Social Value) Act 2012 requires that the council considers, before commencing a procurement process, how wider social, economic and environmental benefits that may improve the wellbeing of the local area can be secured. The social value considerations included in the tender (as outlined in the Gateway 1 report) are set out in the following paragraphs in relation to the tender responses, evaluation and commitments to be delivered under the proposed contract.

Economic considerations

27. The justification for spend on gym refurbishment is predicated on enhanced usage of the gym and therefore increased revenue from increased visits by existing users and increased new memberships. The financial impact of the enhanced service will be monitored by the Leisure services Commercial Manager. Additional marketing initiatives may be delivered to supplement the enhanced service to obtain additional usage.

Social considerations

28. A fully functional and up to date gym offering will encourage additional users resulting in a more active community.

Environmental/Sustainability considerations

29. The products and materials selected for the project are in line with the authority's Fairer Future Procurement Framework.

Market considerations

30. The market for low value construction works in the public sector for gyms is limited. There is a small willing pool of contractors that have the relative experience and are willing to competitively bid for public sector works. There is limited profit for such opportunities with risks of liquidated damages being imposed by programme overrun.

Staffing implications

31. None

Financial implications

Gym Refurbishment (Capital)	Source of funding	Cost excl. VAT (£)	Cost incl VAT (£)
Lighting and power installation	L-1340-0025	£169,594	£203,513
Timber Structures & Mirrors, Decorations & Signage, and PM fees	L-1340-0022	£186,081	£223,297
Flooring, Structural and Decorations	L-1340-0023	£392,864	£471,437
Sub total		£748,539	£898,247
Contingency (10%)	L-1340-0023	£75,000	£90,000
Total contract cost		£823,539	£988,247

32. As illustrated in the table above, the gym refurbishment works are funded from 3 different capital scheme depending on the nature of the works. Combining all the gym refurbishment and repair works in one project, this will help to minimise the disruptions to the operation of service.
33. The lighting and power installation £169,594 are funded from the approved £500k Leisure Insourcing - Digital Transformation capital scheme (L-1340-0025), the decorations (including timber structures & mirrors, signage) £186,081 are funded from the approved £1.6m Leisure Insourcing - Full refurbishment of all gym capital scheme (L-1340-0022), and the building works (including structural and flooring works and contingency) £467,864 are funded from the approved £8m Leisure centre remedial & improvement works (L-1340-0023).
34. This forecast expenditure is affordable within the current approved budget envelope for these various capital schemes.
35. These costs will be monitored and reported as part of the departmental revenue and capital budget monitoring process.
36. Staffing and any other costs such as project management connected with these recommendations are to be contained within Leisure Services division revenue budgets.
37. For construction (works) contracts, the council is the end user in relation to Domestic Reverse Charge (DRC) and notification of this will be included in the letter of award to the successful contractor.

Investment implications

38. The Leisure service 24/25 revenue budget includes an income budget of £8,883k for fitness membership and swim lesson membership. Approximately 15% of our fitness membership members uses the gym only and 29% of our fitness membership members uses a combination of gym & pool & group exercise classes. Together these accounts for £2,971k per annum income revenue.
39. The primary source of revenue for leisure centre is dependent on the quality of fitness facilities provided. This attracts members and supports the

provision of other services. This is an extremely competitive market, which is led by consumer trends and expectations. The fitness equipment and gym layout in the leisure centres across the borough were last refreshed in 2015-18, with the exception of the recent opening of the Southwark Park Sports and Athletics Centre in 2021. A substantial volume of users and wear and tear on facilities have created the need to invest in gyms across the Borough to ensure the service remains competitive and meets community needs.

40. The Leisure gym equipment refurbishment project consists of 3 stages: Stage 1 – Gym design, Stage 2 – Purchase and Maintenance of new gym equipment and Stage 3 – Gym refurbishment (including lighting and building works). The combined value of works (including annual maintenance) totals to £2.565m
41. Based on an estimate combined membership growth rates of 5% and preventing the potential loss of some of our existing gym only members and gym & pool & group exercise classes members, overall the leisure gym equipment refurbishment project would generate an estimated income of £942k.
42. Comparing against total value of the project (including all stages), the payback period would be 2.72 years.

Second stage appraisal (for construction contracts over £250,000 only)

43. N/A the procurement did not use the approved supplier list due to the specialist nature of the works requiring contractors with gym refurbishment experience. A credit check on the contractor has been undertaken, they score 82, “secure”.

Legal implications

44. Please see the comments of the Assistant Chief Executive (Governance and Assurance) below.
45. Contract Standing Orders require that all reasonable steps are taken to obtain at least five tenders from the council’s works approved list, unless permission is obtained to do otherwise through a gateway 1 report.

Consultation

46. N/A

Other implications or issues

47. N/A

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Resources (CAP24/049)

48. That the Acting Strategic Director of Environment, Sustainability and Leisure approves the award of the works contract to NMCK Ltd for refurbishment of the leisure services gyms for the value of £748,539 starting on 4 November 2024 for a period of seven weeks, plus a contingency of £75,000 for any unforeseen works and approves that the authority for contingency spending be delegated to the Head of Leisure for efficient management of unforeseen expenses.
49. The SDR notes that this refurbishment will help protect the existing income stream and will also generate an extra £250k over the next 3 years. This additional revenue should be built into future versions of the MTFS.
50. Staffing and any other costs associated with this recommendation are to be contained within existing departmental budgets.

Head of Procurement

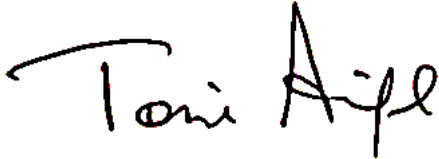
51. A formal concurrent is not required for this report as the estimated value is below the advertising threshold for works of this nature, as prescribed by the Public Contracts Regulations 2015 (PCR2015). Notwithstanding, it is confirmed that the contract award recommendation as outlined is consistent with PCR2015 and the council's Contract Standing Orders, (CSO) acknowledging rationale for departure from use of the council's works approved list for identification of bidders and receipt of tenders. In accordance with CSO, the decision must be taken by the relevant chief officer, or under their delegated authority, in line with the department's scheme of management.

Assistant Chief Executive – Governance and Assurance

52. As the estimated value of the contract award proposed in this report is below the current advertising threshold for works as prescribed by the Public Contracts Regulations 2015 a formal legal concurrent is not required. It is, however confirmed that the contract award complies with those Regulations and other relevant domestic legislation and is also consistent with the council's Contract Standing Orders, which reserve the decision to approve the recommendation to the relevant chief officer, or under their delegated authority, in line with the department's scheme of management. The contract conditions will include the council's standard amendments.

PART A – TO BE COMPLETED FOR ALL DELEGATED DECISIONS

Under the powers delegated to me in accordance with the council’s Contract Standing Orders, I authorise action in accordance with the recommendation(s) contained in the above report (and as otherwise recorded in Part B below).



Signature

Date: 23 October 2023

Designation: Acting Strategic Director Environment, Sustainability & Leisure

PART B – TO BE COMPLETED BY THE DECISION TAKER FOR:

- 1) All key decisions taken by officers
- 2) Any non-key decisions that are sufficiently important and/or sensitive that a reasonable member of the public would reasonably expect it to be publicly available (see ‘FOR DELEGATED DECISIONS’ section of the guidance).

1. DECISION(S)
As set out in the recommendations of the report.

2. REASONS FOR DECISION
As set out in the report.

3. ALTERNATIVE OPTIONS CONSIDERED AND REJECTED BY THE OFFICER WHEN MAKING THE DECISION
Not applicable.

4. ANY CONFLICT OF INTEREST DECLARED BY ANY CABINET MEMBER WHO IS CONSULTED BY THE OFFICER WHICH RELATES TO THIS DECISION
None

5. NOTE OF ANY DISPENSATION GRANTED BY THE MONITORING OFFICER, IN RESPECT OF ANY DECLARED CONFLICT OF INTEREST
<i>If a decision taker or cabinet member is unsure as to whether there is a conflict of interest they should contact the legal governance team for advice.</i>
None

6. DECLARATION ON CONFLICTS OF INTERESTS
I declare that I was informed of no conflicts of interests.*

BACKGROUND DOCUMENTS

Background documents	Held At	Contact
None		

APPENDICES

No	Title
Appendix 1	Equalities Impact and Needs Analysis
Appendix 2	Gateway 1 Gym refurbishment

AUDIT TRAIL

Lead Officer	Toni Ainge - Acting Strategic Director of Environment, Sustainability and Leisure
Report Author	Ian Gallagher – Head of Leisure
Version	Final.
Dated	26/09/2024
Key Decision?	Yes
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER	

Officer Title	Comments Sought	Comments included
Strategic Director of Resources	Yes	Yes
Head of Procurement	Yes	Yes
Assistant Chief Executive – Governance and Assurance	Yes	Yes
Director of Exchequer (for housing contracts only)	No	No
Cabinet Member	Yes	Yes
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	No	No
Cabinet	No	No
Date final report sent to Constitutional Team		23 October 2024