

Report to the Cabinet

Meeting to be held on Thursday, 12 April 2018

Report of the Director Programmes and Project Management

Part I

Electoral Division affected:
All in Preston

Update on Preston Youth Zone Operator

Contact for further information:

Sue Procter, Tel: (01772) 538848, Director Programmes and Project Management
sue.procter@lancashire.gov.uk

Executive Summary

The Cabinet approved a report on 10 August 2017, recommending the commencement of a procurement exercise to secure a Youth Zone Operator for the delivery of the Preston Youth Zone. A Prior Information Notice was issued on 12 October 2017 to prepare the market for the release of the tender documents.

In June 2016 the Cabinet received a report which provided a cost estimate of £6.925m for the design and construction of the Preston Youth Zone. The county council has committed a capital contribution of £5.925m to the scheme with the requirement that the Youth Zone operator provide the remaining £1m.

The estimate of £6.925m has been reviewed to take account of a recalculation of Tender Price Inflation, a revised design to accommodate the co-location of the Preston Youth Offending Team service and an enhanced specification of the external cladding. This has resulted in an increase in the cost estimate of £1.605m and a total capital cost of £8.53m.

Recommendation

The Cabinet is asked to approve the proposal to proceed with the procurement process for the Preston Youth Zone Operator on the basis that the county council's capital contribution is capped at £5.925m and all additional capital requirements, estimated at £2.605m, are met by the private/voluntary sector delivery partner.

Background and Advice

The Cabinet Member for Young People and the Leader received a report from the Executive Director for Children and Young People in July 2011 proposing the delivery of a Preston Youth Zone Plus. This report established a Council capital

contribution of £3m towards the development of this facility on a site to be provided by the Council.

Following the transfer of the ownership of the Preston Bus Station to the Council, Cabinet agreed (6 November 2014) to locate the Preston Youth Zone Plus on the western apron of the bus station complex and to increase the Council's capital contribution to £5m.

Informed by a detailed design, and with the advice of the Council's construction framework partner Keepmoat, the cost estimate for the Preston Youth Zone was revised to £6.925m. The additional £925,000 was approved by Cabinet at its meeting on 9 June 2016.

Revised Cost Estimate for Preston Youth Zone

The period from Cabinet approval (June 2016) to the revised projected start on site (October 2018) has seen a number of factors place significant pressure on the Preston Youth Zone cost plan. These factors have been costed and represent an additional £1.605m taking the estimated outturn cost to £8.53m.

The first, and by far most significant factor, is construction Tender Price Inflation of just over £1.038m. An initial allowance for construction Tender Price Inflation was included to cover the period from Cabinet approval to the anticipated start on site. The initial inflation allowance was c.2% (taken from the Building Cost Information Service) of the construction cost for the scheme.

Actual construction Tender Price Inflation has exceeded all forecasts across the development and construction sectors over this period. The period from June 2016 to March 2017 saw Tender Price Inflation increase by 8% in comparison to the Building Cost Information Service allowance of 2%.

In addition to construction Tender Price Inflation further refinement of the design has resulted in additional costs. The Design Team, (advised by specialist Fire Engineering Consultants), has recommended an enhanced specification for the external cladding of the Youth Zone. This expenditure provides an element of future-proofing to the building in light of the likely changes to Building Regulations requirements.

The need to reconfigure the internal layout of the Youth Zone to accommodate the Youth Offending Team also required further design adjustments. The Design Team has worked with the Youth Offending Team to understand the requirements of the service now and in the future, with particular reference to the consolidation of accommodation with a focus on Preston.

The combination of enhanced cladding, Youth Offending Team accommodation and associated design fees totals c£567,000.

Procurement of Preston Youth Zone Operator

To ensure compliance with both procurement regulations and state aid rules Cabinet made the decision to proceed with a procurement exercise to identify a Youth Zone Operator for the scheme at its meeting on 10 August 2017.

A Prior Information Notice was published on 12 October 2017 describing the operations to be delivered and stating that the Council would provide a maximum revenue contribution of £150,000 per annum for an implied initial term of 10 years, as well as a lease arrangement of a building on Preston Bus Station at a peppercorn rent. The successful tenderer would be required to provide a £1m contribution to the capital costs of construction and cover the remaining costs associated with the management and operation of Preston Youth Zone.

There has been no registrations of interest to this Prior Information Notice.

Since the Prior Information Notice was published legal clarification has been received in relation to the implications of the peppercorn rent and the Council's compliance with s123 of the Local Government Act 1972. The removal of reference to a 'peppercorn rent' from the procurement and the seeking of a market rent will enable the Council to comply with this requirement.

The Council has demonstrated a continuing significant capital and revenue commitment to the provision of a Preston Youth Zone and recognises that this is an extremely welcome asset in Preston. However it would be very challenging in the current financial climate for the Council to increase its capital commitment beyond £5.925m. It is considered appropriate and reasonable for the Council to place a cap on its capital commitment at £5.925m.

All capital funding requirements beyond this figure would need to be secured through the Youth Zone Operator and will be specified within the tender documentation. As described below the estimated cost of the scheme is £8.53m, which will require a £2.605m contribution from the operator.

Consultations

Relevant Heads of Service, Directors, Executive Directors and operational staff have been consulted in drawing together proposals for the procurement documentation and the design specification for the facility.

Implications:

This item has the following implications, as indicated:

Risk management

The risks are highlighted in the report.

Legal

In proceeding with the procurement process the county council as a public authority must comply with the relevant procurement regulations, state aid rules and s123 of the Local Government Act 1972.

The potential for state aid issues has been negated by opening the opportunity to competition through a procurement process which complies with the Public Contract Regulations 2015. Appointing a Youth Zone Operator following an open tender process does not create an unfair advantage to the recipient but offers a fair and transparent opportunity to all those interested in delivering the services (including operators from other EU states). Under a compliant procurement process all bids would be evaluated on an equal basis according to pre-published criteria and there is thus no detrimental impact upon inter-state competition.

Section 123 of the Act provides that a council cannot dispose of its land for a consideration less than the best that can be reasonably obtained in the market, except with the express consent of the Secretary of State. A disposal of land includes the granting of a lease. As per point 13 the removal of the peppercorn rent, allowing for an open market rent, gives compliance to this requirement.

Financial

The financial contributions committed to the delivery of the Preston Youth Zone have been considered through previous reports, most specifically within the report to Cabinet on 9 June 2016.

The current report recommends that all further capital requirements are met through the Youth Zone Operator, therefore limiting the county council's financial commitment to that already agreed. The required commitment of the Youth Zone Operator is currently estimated to be £2.605m, rather than the £1m contribution previously discussed.

The procurement process specifies that the Youth Zone Operator will take on the operational and financial risk associated with delivering the Preston Youth Zone. It is envisaged that they will need to secure private sector contributions from sponsors, arrange contributions from other public sector partners, as well as charging a fee for young people to access the activities to cover costs.

Procurement

It should be noted that no registrations of interest from suppliers were made following the publication of the Prior Information Notice. The increased capital requirement and removal of the 'peppercorn rent' arrangement will erode the commercial viability of the opportunity and increase the risk that no operator will come forward through this procurement process.

List of Background Papers

| Paper | Date | Contact/Tel |
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N/A

Reason for inclusion in Part II, if appropriate

N/A