



EAST STAFFORDSHIRE BOROUGH COUNCIL

REPORT COVER SHEET

Title of Report:	Leisure Management Options
Meeting of:	Cabinet
Date:	18 April 2016
Is this an Executive Decision:	YES
Is this a Key Decision:	NO
Is the Report Confidential:	NO
If so, please state relevant paragraph from Schedule 12A LGA 1972:	[]

Essential Signatories:

ALL REPORTS MUST BE IN THE NAME OF A HEAD OF SERVICE

Monitoring Officer: **Angela Wakefield**

Date Signature

Chief Finance Officer: **Sal Khan**

Date Signature

EAST STAFFORDSHIRE BOROUGH COUNCIL

Report to Cabinet

Date: 18th April 2016

REPORT TITLE: Leisure Management Options

PORTFOLIO: Cultural Services

HEAD OF SERVICE: Mark Rizk

CONTACT OFFICER: Thomas Deery Ext. No. x1250

WARD(S) AFFECTED: None

1. Purpose of the Report

- 1.1. To identify and present the current Local Government context of leisure management arrangements and consider how East Staffordshire Borough Councils compares to this.
- 1.2. To set out a proposal for considering alternative management arrangements through the procurement of an options appraisal.

2. Executive Summary

- 2.1. East Staffordshire Borough Council currently manages its leisure, and other associated cultural services, 'in-house' as part of the Cultural Services portfolio. The leisure facilities are considered to be in excellent condition following capital investment at all three sites.
- 2.2. Across Staffordshire and the Council's CIPFA Nearest Neighbours, there is a trend of other Local Authorities either taking up alternative management options, or beginning to reconsider their current arrangements. The wider Local Government context shows that only 21% of Local Authorities still manage their leisure facilities in-house.
- 2.3. For East Staffordshire Borough Council to consider the potential alternative options, it would be prudent to procure a management options appraisal so as

to fully evaluate the implications of all options, including the current arrangement. This approach is set out in the Corporate Plan.

3. Background

- 3.1. The Cultural Services portfolio includes the Leisure, Sport and Culture facilities and functions of the Council. Specifically, this comprises of:
- Meadowside Leisure Centre;
 - Uttoxeter Leisure Centre;
 - Shobnall Leisure Centre;
 - Sports and Health Development;
 - Brewhouse Arts Centre (and Arts Development).
- 3.2. The three leisure centres are considered to be in excellent condition, having recently undergone extensive refurbishment works. As a consequence, it is envisaged that they do not require any further capital investment in the short term.
- 3.3. The Council undertook a procurement options appraisal in partnership with South Derbyshire District Council in 2010 to evaluate potential options for the management of the service. Following this, ESBC continued to deliver the service in-house whereas SDDC entered into a 7 year partnership in April 2011 with the charity Active Nation, who also works with 4 other Local Authorities across 15 centres in total.
- 3.4. Also included within Cultural Services, and considered for the implications of this report, is the Civic Function Suite located at Burton Town Hall and the Burton Market Hall. The Market Hall has recently undergone significant renovation in a bid to enhance its offering to both the businesses in situ and the public.

4. Contribution to Corporate Priorities

- 4.1. The subject of this report is inline with the Corporate Priority of Value for Money Council Services.

5. Current Position and Context

Current Position

- 5.1. As mentioned above, the current position of the Council is 'in-house' management of its leisure and cultural services. Significant capital funds (over £10m) have been invested into the renovation of these facilities so as to improve their income generating potential and reduce the subsidy contribution.
- 5.2. On 23rd February 2015, Full Council approved the Revenue Budget for 2015/16 and 2016/17 which totalled a budgeted expenditure of just under £1.5m in both years for Leisure, Sport and Culture.

- 5.3. For 2013/14 and 2014/15, the Council reported the below expenditure, which accounts for the direct costs associated with Leisure, Sports and Culture:

Leisure, Sports and Culture	Total Expenditure (£'000)	Total Income (£'000)	Net Expenditure (£'000)
2014/15	3,626	(1,984)	1,642
2013/14	3,702	(2,005)	1,697

N.B. Uttoxeter Leisure Centre was closed for the duration of 2014, which had an impact on the revenue budget.

- 5.4. As Government funding continues to decrease there is an increasing pressure on the Council to reduce the operating costs of its Leisure, Sports and Culture service, which accounts for 12.31% of the overall Revenue Budget for 2015/16.
- 5.5. Additionally, there is also approximately a further 24% of support service costs associated with leisure, which would bring the net expenditure level up to around £2m.
- 5.6. Looking beyond the financial implications, there is also a responsibility for the Council to adapt to the changing environment of service delivery. In the 6 years that have passed since the previous options appraisal, leisure management organisations and their delivery models have developed and refined to a point where they are now delivering the services for a greater number of Authorities (see 5.10.). Whilst this in itself is not a reason for the Council to pursue this course of action, it is indicative of the quality of options available.
- 5.7. In addition, the Council is in an advantageous position due to the quality of its leisure facilities as many other contracts between Local Authorities and management providers have included the renovation or new build of leisure facilities. This removes what could be a significant cost from any arrangement.

Wider Local Government Context

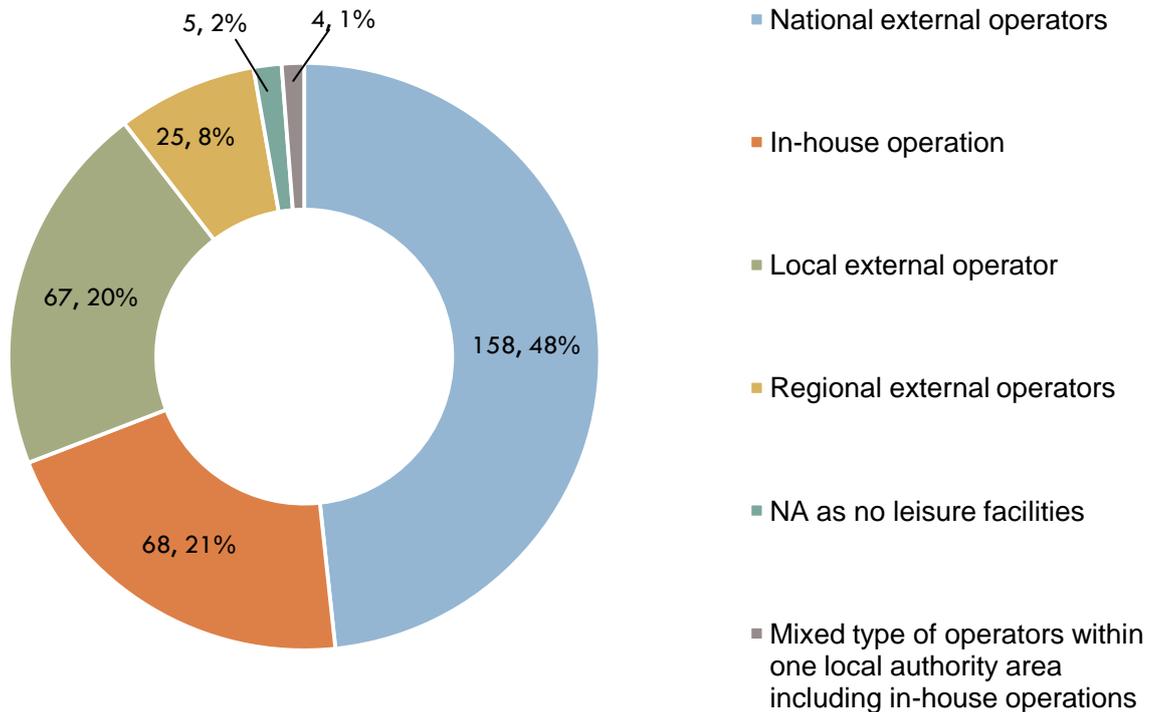
- 5.8. There has been a significant increase in the number of Councils who outsource the management of their leisure services over the past 10-15 years. The following table considers the local situation by looking at Councils across Staffordshire and some of our CIPFA nearest neighbours.

	Council	In-House	Trust (both existing and new)	Private Provider
Staffordshire	Cannock		X	
	East Staffordshire	X		

	Lichfield	X		
	Newcastle	X		
	South Staffordshire	X		
	Stafford	X		
	Staffordshire Moorlands		X	
	Stoke	X		
	Tamworth	X		
CIPFA	Bassetlaw		X	
	Broxtowe		X	
	Chorley		X	
	East Northamptonshire		X	
	Erewash	X		
	Gedling	X		
	High Peak			X
	Kettering	X		
	North Warwickshire	X		
Total		11	6	1

- 5.9. Whilst the above table shows that the majority of Staffordshire Local Authorities still manage their leisure services in-house, it should be noted that Stoke, South Staffordshire, Lichfield, Stafford and Tamworth are all presently considering options for the delivery of their leisure services.
- 5.10. Whilst there are many other Local Authorities who have either considered, or entered into, alternative leisure management arrangements, particularly London based Authorities, the ones above were identified as being appropriate as a base comparison for East Staffordshire.
- 5.11. The below graph demonstrates the distribution of management arrangements across the majority of Local Authorities (327). From this we can identify that the national trend of leisure facility operation is moving towards external operation, either local (20%) or national (48%).

Operation of Local Authority Facilities



5.12. Enquiries have been made with multiple Local Authorities on the financial implications of alternative management arrangements. Most have only been able to provide anecdotal statements supporting the suggestion that savings can be realised.

5.13. Cannock Chase District Council, now in a 10 year partnership with Wigan Leisure and Culture Trust (WLCT), explained that their contract specified a minimum savings level of £540,000 per annum. The actual amounts for the first 3 years are as follows:

Year	£
2012-13	675,000
2013-14	781,660
2014-15	727,129
Total savings over 3 years	2,184,425

5.14. The average of the 3 years is a saving of £727,930 which roughly represents a 33% reduction when compared to previous in-house management net expenditure. This is despite significant capital investment, which was an additional cost to the contact, something which would not be a factor for ESBC.

5.15. In this arrangement, WLCT took on full financial responsibility for employer contributions towards the Local Government Pension Scheme over the full contract period for TUPE transferred staff. It also has to pay a pension bond of £250,000 to the Council over 10 years to cover the risk of pension liability in the event of WLCT dissolved.

- 5.16. Responsibility for utilities tariff and consumption and building risk was also transferred to WLCT, along with approximately £1m in backlog maintenance, leaving the Council with limited financial (revenue) risk of operating leisure services.

6. Potential Options for Consideration

- 6.1. There are a number of options for the Council to consider when reviewing potential models for future service delivery. The traditional arguments for and against these options are outlined below.

In-house Management

- 6.2. Potential advantages include:
- Retaining day-to-day operational control;
 - Retaining workforce and expertise;
 - No additional costs to continue this arrangement.
- 6.3. Potential disadvantages include:
- Retaining responsibility/liability for operational performance.
 - Retaining the limitations of being a public sector organisation, potential to miss out on some opportunities.
 - Significant Revenue Budget expenditure (albeit reducing).

Private Sector Provider

- 6.4. Potential advantages include:
- Increased likelihood for increasing income generation and so reducing the financial burden on the Council;
 - Transferral of some operational risk;
 - Utilisation of specific and relevant leisure management expertise and experience.
- 6.5. Potential disadvantages include:
- Reduction of the Council's control over day-to-day operations;
 - The management and potential problems of transferring staff under TUPE;
 - Risk of prioritising commercialisation over social responsibility to the local community.

Existing Trust (or other such Non-Profit Distributing Organisation)

- 6.6. Potential advantages include:
- Greater opportunity for community involvement in service management;
 - Operational risks could be transferred from the Council;
 - Allows the service to have a 'single mission' focus, rather than a wider Council focus.

- 6.7. Potential disadvantages include:
- Reduction of the Council's control over day-to-day operations;
 - The management and potential problems of transferring staff under TUPE;
 - Retaining the overall responsibility for the operational performance (and financial liabilities) or the services.

New Trust (or other such Non-Profit Distributing Organisation)

- 6.8. Potential advantages include:
- Greatest opportunity for community involvement in service management;
 - Operational risks would be transferred from the Council;
 - Financial and Managerial autonomy of the Trust with the Council still maintaining overall control.
- 6.9. Potential disadvantages include:
- Reduction of the Council's control over day-to-day operations;
 - Retaining overall liability which could result in future financial etc. support by the Council;
 - Difficulty of new Trust establishment processes.

7. Key Activities and Steps

- 7.1. In order to determine which option would be the most appropriate for East Staffordshire, the Council would be advised to undertake (procure) a leisure management options appraisal. Examples from other Councils demonstrate that this would involve an in depth evaluation of:
- The potential options for consideration;
 - The financial situation and implications;
 - The legal implications;
 - Potential risks;
 - A summary level implementation programme.

This stage is essential in developing the case for determining a particular management model/option.

- 7.2. It is estimated that the procurement of a detailed management options appraisal would take 8 weeks.
- 7.3. It is estimated that the necessary work to deliver the options appraisal would be completed in around 8-12 weeks.
- 7.4. Breakdown of estimated timescale:
- Draft and open Tender (2 weeks);
 - Tender period (3 weeks [5 weeks in total]);
 - Evaluation of tenders and standstill period (2 weeks [7 weeks in total]);

- Sign and countersign contracts (1 week [8 weeks in total]);
- Delivery of options appraisal (12 weeks [20 weeks in total]);

7.5. It is proposed that cross-party engagement for this project be established in the form of a Member Working Group. The scope of the group would be determined following the approval of this report's recommendations.

7.6. Following completion of the work both Cabinet and the Member Working Group would be briefed on the appraisal and identified option.

8. Risks to Consider

8.1. Whilst there are a number of potential risks associated with a project of this scale, there are three key issues to consider moving forwards. These are listed below.

Cost

8.2. Soft market testing estimates that the cost of an options appraisal would be in the range of £15-£20,000.

8.3. The aim of evaluating the Council's options for leisure management is primarily to make financial savings whilst maintaining a high quality service. It should be noted that there are costs associated with implementing a new delivery option.

8.4. Likely costs to develop a preferred option to delivery would potentially include:

- Legal advice/documentation including contracts, employment law, pension changes;
- Additional consultant fees relating to design of further tender documentation and any project management;
- General set up costs of any new arrangement.

8.5. Looking at the broader financial implications, there is also a risk of any change to the service management not actually delivering future costs savings. Again, this would be evaluated within an options appraisal and described within any contacts.

Timescale

8.6. It is expected that an options appraisal would provide a broad programme and timescale based upon the preferred option of the consultant, however if a decision is taken to change the management of the Culture, Sports and Leisure service then a more detailed programme of works will be required.

8.7. If a change in the management structure is agreed, it is likely that the overall project would take 12-18 months.

Service Impact

- 8.8. The potential impact on a service is paramount when considering a change in how that service is delivered e.g. how such a change could affect both the Council and the Borough residents.
- 8.9. For the Council, any change has to either continue to deliver the services as per current arrangements or be a quantifiable improvement in terms of quality. Although the services would no longer be operationally managed by the Council, the obligation to deliver those services would still be retained. As such, an effective performance/contract management process would be required to continuously analyse whether the Council is continuing to fulfil its obligations.
- 8.10. The potential impact upon the community has to take precedence to ensure that residents continue to receive a high quality service at an affordable cost. There is a risk that involving a profit driven organisation in the management of leisure facilities could increase the commercialisation of the services in a negative way, potentially leading to additional costs being placed upon service users.

9. **Financial Considerations**

This section has been approved by the following member of the Financial Management Unit: Paul Billings

- 9.1. The main financial issues arising from this Report are as follows:

Revenue	2015/16	2016/17	2017/18
Consultant Procurement (Options Appraisal)		£20,000	

- 9.2. The only financial implication associated with this report is the potential procurement of a management options appraisal. Taking into account the findings of section 8.2. it is expected that a budget of £20,000 would be appropriate.
- 9.3. There is no budget line for this currently. It is anticipated that this cost can be met either as a Growth Item, carried forward from 2015/16, or as a contribution from reserves.

10. **Risk Assessment and Management**

- 10.1. The main risks to this Report and the Council achieving its objectives are as follows: See Section 8 of this report.
- 10.2. The risks do not need to be entered in the Risk Register. Any financial implications to mitigate against these risks are considered above.

11. **Legal Considerations**

*This section has been approved by the following member of the Legal Team:
Angela Wakefield*

11.1. At this early stage, there are no significant legal issues arising from this Report.

12. Equalities and Health

12.1. **Equality impacts:** The subject of this Report is not a policy, strategy, function or service that is new or being revised. An equality and health impact assessment is not required.

13. Human Rights

13.1. At this early stage, there are no Human Rights issues arising from this Report.

14. Sustainability (including climate change and change adaptation measures)

14.1. Does the proposal result in an overall positive effect in terms of sustainability (including climate change and change adaptation measures) N/A

15. Recommendation

15.1. To approve the procurement of a management options appraisal (as identified in the Corporate Plan) from an external consultant organisation, with a budget of £20,000.

15.2. To establish a cross-party Member Working Group in support of the project.

16. Background Papers

16.1. The 2010 ESBC/SDDC Options Appraisal.