

OVERVIEW AND SCRUTINY TASK GROUP - COUNCIL'S LEISURE CONTRACT

WEDNESDAY, 22ND NOVEMBER 2017, 5.30 PM
COUNCIL CHAMBER, TOWN HALL, CHORLEY

AGENDA

3 PRESENTATION OF PULSE REGENERATION

(Pages 9 - 34)

Members of the Task Group will receive a presentation and report from Pulse Regeneration, the Council's appointed consultant for the Council's leisure contract.

GARY HALL
CHIEF EXECUTIVE

Electronic agendas sent to Members of the Overview and Scrutiny Task Group - Council's Leisure Contract Councillor Alistair Morwood (Chair) and Councillors Charlie Bromilow, Doreen Dickinson, June Molyneaux, Mick Muncaster and Debra Platt.

If you need this information in a different format, such as larger print or translation, please get in touch on 515151 or chorley.gov.uk

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O&S Leisure Contract Review

**Pulse report
findings**

November 2017

Background

Chorley Council's current leisure contract with Active Nation has been in place since 2005 and is due to expire in 2020. An appraisal of the future development options available in relation to delivery of the contract is being undertaken to support decision making.

Pulse Regeneration Ltd were commissioned to conduct an independent review to inform the decision-making process which encompasses the following:

- The current leisure activities and the performance outcomes and impacts as a result of the existing contract
- Options for other models of leisure centre provision and outcomes and benefits from these options as well as the management infrastructure or contract arrangements

Background

- Consideration of the future models of working currently being deployed by the Council and future ambitions for developing new partnership working with health and other public service partners
- Exploration of new models of using leisure centres as assets to maximise activity and services for those most in need
- Consideration of the current commercial impacts of a leisure provision and how future models would meet the Council's ambitions for a long sustainable service
- Consideration of management and infrastructure impacts of any future models
- Recommendations for the future

Method of Approach

The approach has been a combination of research (both fieldwork and desk based), review and consultation including the following:

- Review of information provided by the council and Active Nation (including a detailed review of financial and usage information)
- Review of market trends, demographic data and strategic documents
- Review of best practice
- Meetings with representatives of the council (Early Intervention and Prevention, Finance, HR), and Lancashire Care Foundation Trust

This work is just a starting point – more detailed analysis will be needed on selected options

Review of existing contract - Management

- The contract with Active Nation specifies the responsibilities of the council and Active Nation for delivery of the contract including maintenance responsibilities
- In broad terms, Active Nation is responsible for inspection, repairs and maintenance and the council is responsible for replacement. Building contents are the responsibility of Active Nation at each of the Centres
- Active Nation have their own performance management and quality management system to monitor customer feedback
- There is a good working relationship between the council and Active Nation

Review of existing contract - Usage

- Existing programming and pricing reflects what would be expected within “traditional” public leisure centres and swimming pools
- Overall combined usage at the centres has increased by 35.4% from 08/09 to 16/17 - from 841,147 visits to 1,139,070 visits
- The largest increase in usage has been at Clayton Brook, where usage has increased by 78.9% from 08/09 to 16/17. Total visits: 330,157 in 16/17
- All Seasons Leisure Centre is the most well used Centre attracting 776,055 visits in 16/17. Usage at this site has increased by 23.4% from 08/09 to 16/17
- Brinscall Swimming pool is the smallest facility. Total visits in 16/17 were 32,858, an increase of 12.5% from 08/09 to 16/17

Review of existing contract – Financial performance

Management accounts for the past three years have been evaluated to produce the following summary:

Overall combined income at the centres (including the management contract) has remained constant. Total income in 2016/17 was £2,591.9K compared with £2,592.1K in 2014/15

- Income at All Season Leisure Centre accounted for 65.3% of total income in 16/17 (£1,645.8K)
- Income from swimming and the health and fitness suites account for 65% of total income
- In 2016/17 the operation made a small profit (£2.3K) compared with a loss of £58.0K in 2015/16 and a breakeven position in 14/15

Review of existing contract – Financial performance

- Wages account for the largest item of expenditure - 53.0%
- The second largest cost incurred by Active Nation relates to on-going maintenance.
- Whilst salaries at the three facilities have remained relatively stable over the period 2014/15 to 2016/17, salaries associated with contract management have increased by approximately 25% over the past three years
- Active Nation benefit NNDR advantages as a result of their Charitable Status - £122K per annum

Review of existing contract – Financial performance

- It is not clear as to what costs are attributed to some elements of the contract in information provided by Active Nation. These elements include:
 - support costs (circa £234K)
 - wages and salaries (circa £1,372K)
- A further breakdown of the what is included in both wages and salaries and support costs is required to understand these costs fully and determine if all of these costs would be transferred or not.

Review of existing contract - Staffing

Staffing information has been provided by Active Nation relating to staffing at each of the Centres, and support against the contract:

- 146 staff are on payroll
- 84 Staff on permanent contracts of which:
 - 26 Full Time 40 hrs
 - 58 Part time 36 hrs and below
 - 62 staff on “casual” contracted hours
- There is no pay scale in place and salaries are agreed depending on the role
- Other issues relating to staffing include:
 - Benefits
 - Overtime Rules
 - Pension details and scheme

Review of existing contract - Conditions survey

- Conditions Surveys have been provided for each facility to cover the period 2015 to 2019 with a five year Maintenance Plan
- The buildings which form part of the contract are ageing although each has had investment in the past 10 years:
- All Seasons Leisure Centre was originally constructed in 1993. The new extension for the gym was built in 2007 (Maintenance costs 15-18 £252.9K)
- Clayton Brook Leisure Centre was built in 1995. Its extension was completed in 2007 (Maintenance costs 15-18 £413.2K)
- Brinscall Swimming Pool was built in 1900. The Building was renovated in 2008 (Maintenance costs 15-18 £87.9K)

Key issues for consideration - Management

- The council would need to acquire that expertise if it were to take the leisure contract back in house
- TUPE transfer requirements of taking the leisure contract in house and the impact of circa 150 new staff into Council employment
- Should the management of the leisure facilities be taken in house, there will be a need for back of house support from other Council departments (e.g. HR (including Health and Safety), Finance, IT, Legal, Property Services, Cleaning, Marketing
- Some services could still be contracted out even if the council take the contract in house.

Key issues for consideration - Finance

- Pensions and on costs – based on figures provided, the on-costs for salaries are currently around 5.9%. This compares with 22% for the council
- Dependent on the in-house model adopted CBC could be entitled to charitable relief on their business rates, which Active Nation are currently eligible for (estimated to equate to circa £122K per annum). However further work would need to be undertaken understand the implications of recent changes.
- On-going support costs such as: HR, Finance, IT, Legal, Property Services, Cleaning, Marketing
- There will be a need to protect key revenue streams to minimise cost of provision of service in the future

Key issues for consideration – HR and Property

- Resource implications of managing a TUPE process
- Ongoing management and HR for additional staffing within a leisure centre context
- The current layout of the buildings (All Seasons and Clayton Brook) is for Leisure Centre use and reflects leisure needs at the time the building was built.
- The buildings are not ideal for delivery linked to an early intervention/prevention agenda with numerous partners co-locating
- A long term replacement plan is required for the buildings

Key issues for consideration – Reputational Risk

- Whatever decision is made regarding the future of the Leisure Contract, consideration needs to be given to both the potential positive and negative impacts on reputation.
- Although the current arrangement places Active Nation as the delivery and management partner, the venue and the overall operation is broadly already viewed as a council service by a large proportion of the community.

National factors influencing leisure provision

Strategic

- **Government Support** - ukactive has released “Blue Print for Active Britain” (2016) which highlights how activity needs to be put back at the centre of everyday lives.
- **Outsourced Contract Management** - In house operation of public leisure centres continues to decline with Local Government Association share of management of sites falling below 20%. Leisure Trusts (including council leisure trust models) now manage the operation of 34% of the facilities and education establishments manage 23%
- **Competitive Market** - A number of organisations have been set up to take on the management of Leisure Centres and swimming pools as demand for transfer from local authority management has increased. Many of these operate as Trusts.

National factors influencing leisure provision

Financial

- **Existing Stock of Facilities** – The LGA believes that many council owned leisure facilities are at risk if funding is not found to refurbish existing infrastructure
- **Savings** – According to ukactive redeveloping the UK's public leisure centres would lead to a saving of up to £500 million a year in operating costs
- **Funding** – Future funding of leisure facilities can no longer be done solely through Lottery grants. Council's looking fund major new/redevelopment need to consider other sources of finance
- **Innovative Partnership Working** – Local authorities have had to consider the development of partnerships in both public and private sectors to remain sustainable and successful

Options appraisal – Option 1

Option 1 – Invite other Leisure providers to tender for the contract under the current operating provision and objectives

| Pros | Cons |
|--|---|
| <ul style="list-style-type: none">• Demonstrates value for money• Commercial approach to management and revenue generation• Greater management experience of running leisure facilities• Potential to renegotiate existing contract• Competitive tender market• Leisure operators should provide economies of scale• Financial risk split between CBC and contractor | <ul style="list-style-type: none">• CBC less control over day-to-day operations• New management relationships required (should an alternative provider to Active Nation be awarded the contract)• Risk of balancing commercial gain against strategic objectives• Doesn't address early intervention/prevention objectives of CBC• Doesn't address issues of ageing leisure buildings• Cost of procurement process and contract management |

Options appraisal – Option 2

Option 2 – Bring the provision back in-house and deliver under the current operating provision and objectives

| Pros | Cons |
|---|---|
| <ul style="list-style-type: none"> • Reduction in charges currently in place to cover central costs (Active Nation core support costs) • Full control of day-to-day operations • Potential for CBC to set up a trust model to benefit from NNDR advantages • Savings generated from the existing management fee • Potential to increase secondary spend by maximising the opportunities available through food and beverage • Profits able to be invested directly into the assets • External funding opportunities as site owners | <ul style="list-style-type: none"> • Entire financial risk sits with the Council • Increased costs of TUPE • Financial impact of Council commitments to: living wage; pensions; use of in house contracting services (e.g. cleaning, IT) • Loss of NNDR advantages (unless CBC sets up a Trust) • Loss of expertise of current expertise of facility management • Need to create a new management structure with experience of running leisure facilities in order to maintain income and expenditure budgets • Doesn't address early intervention/prevention objectives of CBC • Doesn't address issues of ageing leisure buildings • Possible reputation risk should transfer not run smoothly |

Options appraisal – Option 3

Option 3 – Invite other providers to tender for the contract under a new operating provision with objectives in-line with early intervention principles and outcome based performance.

| Pros | Cons |
|---|--|
| <ul style="list-style-type: none"> • Demonstrates value for money • Competitive tender market • Time to develop new specification • Can build in agreed early intervention/prevention objectives • Partner support for early intervention • Commercial approach to management and revenue generation • Contractor has greater management experience of running leisure facilities • Potential to renegotiate existing contract • Financial risk split between CBC and the contractor (although CBC might incur increased costs for early intervention/prevention objectives) | <ul style="list-style-type: none"> • More expensive procurement process (than Option1) • New management relationships required (should an alternative provider to Active Nation be awarded the contract) • In house team can focus on early intervention and prevention agenda and not facility management • Some cost to introducing early intervention and prevention agenda (e.g. modifying equipment, developing new programmes) • Potential loss of income should a less commercial approach be adopted • Early intervention/prevention objectives constrained by the age/layout of existing buildings • More difficult for partnership working when delivery is the responsibility of a third party • Doesn't address issues of ageing leisure buildings |

Options appraisal – Option 4

Option 4 – Bring the provision back in-house and design a model which targets the health and well-being needs of the residents of Chorley and is linked to our ambition for future operating models of partnership and collaborative approaches and requires little/no capital investment

| Pros | Cons |
|--|--|
| <ul style="list-style-type: none"> • Reduction in charges currently in place to cover central costs (Active Nation core support costs) • Full control of day-to-day operations • Allows for integrated working • Allows for delivery of some early intervention and well-being agenda • Partner support for early intervention • Potential for CBC to set up a trust model to benefit from NNDR advantages • Savings generated from the existing management fee • Potential to increase secondary spend by maximising the opportunities available through food and beverage • External funding opportunities as site owners | <ul style="list-style-type: none"> • Entire financial risk sits with the Council • Increased costs of TUPE (compared with Option 2 –more redundancies and further recruitment) • Loss of NNDR advantages (unless CBC sets up a Trust) • Loss of expertise leisure management expertise • Need to create a new management structure with experience of running leisure facilities • Additional support costs required for back of house function • Some cost to introducing early intervention and prevention agenda (e.g. modifying equipment, developing new programmes) • Early intervention/prevention objectives constrained by the age/layout of existing buildings • Possible higher reputation risk should transfer not run smoothly |

Options appraisal – Option 5

Option 5 – Bring the provision back in-house and design a model which targets the health and well-being needs of the residents of Chorley and is linked to the ambition for future operating models of partnership and collaborative approaches and requires significant capital investment

| Pros | Cons |
|--|---|
| <ul style="list-style-type: none"> • Reduction in charges currently in place to cover central costs (Active Nation core support costs) • Provides a “fit-for-purpose” facility for integrated working • Fits Council’s strategic priorities regarding “ambition” • Potential to develop a facility that considers the needs of a wide range of potential partners • Current occupy significant areas of land which might be used for development • Potential to develop a financially sustainable model • Maximises early intervention/prevention agenda • External redevelopment funding opportunities as site owners • Savings generated from the existing management fee | <ul style="list-style-type: none"> • Investment in detail options appraisal • Significant capital requirement • Entire financial risk sits with the Council • Increased costs of TUPE • Loss of NNDR advantages (unless CBC sets up a Trust) • Need to create a new management structure with experience of running leisure facilities • Additional support costs required for back of house function • Loss of current expertise of leisure facility management • Possible reputation risk should transfer not run smoothly |

Pulse Recommendations

Our recommendation on the work undertaken to-date would be Option 3

“Invite other providers to tender for the contract under a new operating provision with objectives in-line with early intervention principles and outcome based performance”

This would allow:

- Some delivery of early intervention/prevention objectives
- CBC to focus on the early intervention objectives and not facility management
- The financial risk continues to be split between CBC and the contractor
- None of the additional costs highlighted above are incurred and there are no significant additional pressures placed on other CBC departments

Pulse Recommendations

Costs associated with this model are primarily procurement costs (including contract revision: estimated at £15-20K by CBC Procurement) and ongoing contract management costs.

Notwithstanding this recommendation, it is suggested that consideration needs to be given to looking at building replacement in the future. This would allow consideration of Option 5 and the potential to develop a “fit-for-purpose” development model that can maximise the early intervention/ prevention

Conclusions

The recommendations made by Pulse have been based on the consideration of the five broad options from an operational perspective and whilst this provides a good overview it has highlighted the need to further consider the financial impacts and opportunities regardless of the option selected.

Not highlighted but also for consideration is the potential to explore thoroughly the existing resourcing structures, roles and potentials for operational cost efficiencies across all three sites, alongside further understanding of the central core costs currently being incurred.

This will enable the preliminary decision of whether it is financially feasible to bring the contract back in house to be made before any further decisions are made. Once identified, further decisions can be made using the evaluations and appraisal options provided by Pulse.

Suggestions recommendations ?

The suggested recommendations from this Overview and Scrutiny panel is to:

Conduct more detailed analysis to determine the financial feasibility of contracting out or bringing the contract back in house, by specifically focussing on:

- Analysis and understanding of Active Nation central costs
- Conducting a detailed active market financial appraisal
- Determine actual anticipated impacts of on-costs
- Analysis of control and efficiencies to be gained by bringing in-house in comparison with a contracted out model

Use this information to inform the decision required in readiness for the formal contract review period commencing in 2018.