

STROUD DISTRICT COUNCIL

COMMUNITY SERVICES AND LICENSING COMMITTEE

THURSDAY, 2 DECEMBER 2021

Report Title	MANAGEMENT OPTIONS APPRAISAL
Purpose of Report	To provide information and rationale to Community Services & Licensing (CS&L) committee to enable committee to make an informed choice on which is the preferred management option for Stroud District Council to manage their leisure assets from 1 st November 2024.
Decision(s)	<p>The Committee RESOLVED to:</p> <ol style="list-style-type: none"> 1. Agree the recommendation by the Leisure Review Management Option Task and Finish Group that a company with 'Teckal' exemptions is adopted as the preferred option for Stroud District Council to manage its Leisure Centres from 1st November 2024. 2. Delegate authority to the Strategic Director of Communities in consultation with the Chair of Community Services & Licensing to explore the Local Authority Trading Company options and reporting back to this committee providing a full financial analysis including board structure.
Consultation and Feedback	<p>A task and finish group (T&F) was set up to consult on all the management options.</p> <p>A management options appraisal process report is attached to the report.</p>
Report Author	<p>Angela Gillingham, Project Manager Leisure, Health and Wellbeing</p> <p>Tel: Email: angela.gillingham@stroud.gov.uk</p>
Options	<p>This report highlights 2 main options for the committee to consider:</p> <ol style="list-style-type: none"> 1. Inhouse 2. Local Authority Trading Company (LATC) with Teckal exemption <p>Four other options were considered and discounted as part of the process. Details of all the options are contained within the appendices</p>

Appendices	Appendix A – Full management options appraisal report (appendix 16 of the Leisure and wellbeing evidence report. Appendix B – Priority Evaluation Appendix C – In house vs. LATC review Appendix D – Equality Impact Assessment Appendix E - Leisure centre evidence report Appendix F - Management options appraisal process report			
Implications (further details at the end of the report)	Financial	Legal	Equality	Environmental
	Yes	Yes	Yes	No

1. INTRODUCTION / BACKGROUND

- 1.1 In September 2021 CS&L committee delegated authority to the Strategic Director of Communities in consultation with the chair of CS&L to make recommendations to this committee on the preferred management option of the leisure centres, the Museum in the Park and Health and Wellbeing services post October 2024
- 1.2 A task and finish group was set up of cross-party members to work with the lead officer and the leisure consultants (Max Associates) to determine the best options for Stroud District Council.
- 1.3 Prior to the task and finish being set up the council's leisure strategy project team commissioned the consultants to conduct a management options appraisal as part of the development of the strategy. The full appraisal is found in Appendix 1
- 1.4 In order for a fresh and balanced approach appendix 1 was not shared with T&F until they had developed their own set of priorities.
- 1.5 The T&F group met on six occasions to review the information presented to them and to come up with an option to recommend to this committee to consider and take forward as their preferred option. (subject to further checks on business evaluation and VAT implications).
- 1.6 The irrecoverable tax threshold could have a negative effect across the entire council in relation to recovery of tax on all purchases.
- 1.7 The Ealing Rule is subject to the recovery of VAT on all leisure income
- 1.8 Both irrecoverable tax and the Ealing rule could affect the in-house option. Further details will be provided at the committee meeting on the 2nd December This is due to the timing of the report being written and the pending report from the tax specialist.

2. The Management Options Appraisal

- 2.1 Due to the leisure contract at Stratford Park Leisure Centre finishing on 31st October 2024, SDC had to undertake a management options appraisal. This was an opportunity to

review how all the leisure, health and wellbeing facilities & services were being managed.

2.2 Stratford Park Leisure Centre, The Pulse Dursley, The Museum in the Park and Health and Wellbeing services were all included within the initial scope of the appraisal. This was a potential opportunity to include all services under one management contract/structure.

2.3 Max Associates completed two options appraisals as part of the process – Appraisal one

- This included six management options where all the pros and cons were presented to the project team on each of the following options.
 - Inhouse
 - External
 - Local Authority Trading Company (LATC)
 - Not for Profit Direct Organisation (NPDO)
 - Joint Venture
 - Asset transfer
- From an early stage of the process, it became clear that whichever option was chosen SDC would have to consider Prudential Borrowing to invest in developing their current and future leisure assets
- The project team discounted 2 management options in the initial stages as not being fit to explore further, based upon the pros and cons presented by the consultants
- These options were Joint venture and Asset Transfer (details are presented within the management options appraisal process report page 7 and in appendix 1 pros and cons page 15 and 22.
- Indicative financial analysis took place including the set-up fees, operational surplus post investment and the time to set up each of the new options (appendix 1 pages 17 -22
- An evaluation framework was set up and each of the four remaining options were scored (appendix 1 pages 23 – 55)
- The in-house option at this stage came out as the most attractive to SDC to manage all services with LATC and external coming in joint 2nd for the management of the leisure centres. The LATC performed better than the external option for managing the Museum and Health and Wellbeing services
- At this point we had not considered the impact of irrecoverable VAT to the council – this was to be explored at a later stage.

2.4 T&F – Appraisal two

- T&F met on six occasions to discuss the outcomes of the strategy with its focus being on *the Management Options Appraisal*.
- The group were given an overview of all 6 options and immediately discounted the same options as the project team
- T&F were asked to independently decide the areas they considered to be the most important to them after being presented with 12 different options
- These options were discussed and with a unanimous decision being taken after debating, they focused on the key areas which were important to them
- These options were:
 - Delivery of council objectives/strategic outcomes and being fit for future

- Customer experience and satisfaction including exemplar provision of council and community facilities across the district
 - Revenue costs
 - Council influence and control
 - Staffing – using local employment, impact on terms and conditions, paying the living wage for the lowest paid staff
 - Giving up control of facilities related to leisure, health, and wellbeing in return for investment.
 - Max Associates took these options and undertook a priority evaluation (appendix 2) detailing what this meant under the 4 remaining management options
 - After these options were presented T&F decided to focus on In-house and LATC as the preferred options to take forward – see management options appraisal process and rationale report page 11
 - Max Associates completed the second management options appraisal on the two remaining options including an indicative revenue position based upon the two leisure centres only with both options scoring the same. (appendix 3)
- 2.5 The impact of the recommendation on the Council's VAT position, such as the Irrecoverable VAT threshold and the "Ealing Rule" is still subject to further investigation. The Council's VAT consultants have been engaged to investigate these implications.
- 2.6 At the time of writing this report the scoping of this exercise has not taken place, but by the time of the committee meeting an update will be given on any details known at that point and the further VAT work that will be undertaken.
- 2.7 Further background work has been undertaken by the officers to fully understand the management options and how they are applied to investment and delivery. An overview is attached to this report (appendix 3). Should members wish to consider the more detailed financial information, the committee would need to enter a closed session where the public and press are excluded. This is pursuant to the provisions of Section 100 (A)(4) of the Local Government Act 1972, on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.

3. CONCLUSION/RECOMMENDATION

- 3.1 Both models would serve the council and district well and would be able to deliver on what is important as we still hold an in-house team with leisure expertise within the council. The LATC option would provide existing staff a greater chance to develop and grow within a new company as it develops
- 3.2 Based upon 2019/2020 actual operating costs the LATC is estimated save SDC 200k per year prior to any facility investment whereas the in-house option would cost an additional 107K (these costs are indicative)
- 3.3 The saving could be used towards the revenue costs of capital investment incurred so that the council could develop its facilities as outlined within the Leisure and Wellbeing strategy

- 3.4** In a mature year after investment the LATC could create a surplus of 350K as opposed to 260K from the in-house operation. In a LATC the surplus once the fee is paid to the council would generate a sinking fund for future lifecycle costs as opposed to the surplus being lost within the main council budget
- 3.5** An LATC would require a board of directors which is included within its revenue central costs. The council could benefit from the LATC buying in the services of certain departments such as finance and HR generating an additional income from the company. The LATC would be able to go out to market to purchase services.
- 3.6** On both options the risk of reward and failure will still sit with the council.
- 3.7** LATC would benefit from an 80% reduction in NNDR, additional VAT savings on income and reduced pension costs. All these costs are considerably higher in an in-house option which is why the T&F recommend that LATC is the preferred option.
- 3.8** Further recommendations conclude that the Museum and Health and Wellbeing services are kept out of the Management Options at this stage and are reconsidered once the LATC has matured.

4. Timescales

- 4.1** As previously stated the current contract for Stratford Park Leisure Centre ends on the 31st October 2024
- 4.2** In order for the council to meet this deadline and to set up a new company without disrupting service the following milestones will need to be met:
- Decision by CS&L on the preferred option (December 2021)
 - Decision by CS&L (March 2022) to recommend that S&R (April 2022) endorse the new company option
 - Full council (April 2022) adopt the recommendation
- 4.3** Subject to above approval, work starts on setting up new company and handover arrangements with current contractor reporting back to CS&L on the progress at each milestone until the full handover in October 2024.
- 4.4** A full project plan will be drawn up by officers in consultation with task& finish on the implementation of the new company and the handover of the current contract.

5 IMPLICATIONS

5.1 Financial Implications

The estimated financial implications are set out in the body of the report.

As described in the report detailed VAT advice is being sought. The results of this advice will be reported back through the Task and Finish Group and then to this committee.

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5.2 Legal Implications

The Council has powers to provide such recreational facilities as it sees fit pursuant to Section 19 of the Local Government (Miscellaneous Provisions) Act 1976.

The Council may set up a wholly owned company under s95 of the Local Government Act 2003 where it wishes to carry out a function (in this case, leisure provision) for a commercial purpose. The Council may also transfer functions directly to a wholly owned company, without competition, if the following conditions set out in Regulation 12(1) of the Public Contract Regulations 2015 apply:

- (a) the Council exercises, over the company, a control which is similar to that which it exercises over its own departments;
- (b) more than 80% of the activities of the company are carried out in the performance of tasks entrusted to it by the Council; and
- (c) there is no direct private capital participation in the company.

Legal support and advice will be provided in respect of the various legal documentation required to set up a new company and in respect of its operation e.g., Articles of Association, Members/Shareholder agreement, service contract for the delivery of services to the Council, novation of existing contracts, support agreements if the Council wishes to provide services back to the new company and leases for occupation of council land/buildings. The Council will also need to comply with other legislative requirements such as the Transfer of Undertakings (Protection of Employment) Regulations 2006 (in respect of staff) and Data Protection legislation (in respect of personal data/customers). Some specialist external legal advice may be required as the project progresses.

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5.3 Equality Implications

An EIA has been carried out by Officers in relation to the decision made in this report and no equality implications arise.

5.4 Environmental Implications

There are no significant implications within this category.