

Stroud District Council
Management Options Appraisal – Priority Review
October 2021

Priorities	In-House	External Contractor	LATC/NPDO
<p>Delivery of council objectives/strategic outcomes.</p> <p>Able to understand the community within which the organisation is working.</p> <p>Ability to increase targeted participation and social value.</p>	<p>Operating the centre(s) in-house means that joined up work to achieve the Council's wider strategic objectives would be more achievable than an external contractor arrangement. The management team will be able to work more easily with the other Council departments to ensure all wider strategic working is delivered.</p> <p>Delivering services in-house means that changing priorities can be quickly implemented.</p> <p>The in-house management team are already involved with wider Council strategies giving them extensive knowledge and experience of working towards Council outcomes.</p>	<p>The centre(s) would be managed with a specification in place. Ensuring the organisation is clear what the Council requires both on an annual and longer time frame. The Council can set out targets (outputs) in relation to participation (new users and existing), target groups, programming and arts / sports & health development and outcomes.</p> <p>The Council can implement a performance management system to ensure that the partner records, reports and delivers the required outcomes.</p> <p>Staff from the existing facility would transfer under TUPE therefore retaining the local experience and knowledge to deliver against outcomes.</p> <p>There will be a concern that services being managed by external organisation to the Council will not consider local stakeholders. However, the specification can be clear in the outputs required and many partnerships have local 'Stakeholder Boards' developed to formalise and ensure local input into the production and delivery of services.</p>	<p>As with the external contractor option, a specification and performance management system would be in place.</p> <p>Therefore, whilst the LATC/NPDO is independent of the Council, if there is a clearly defined specification, and longer-term financial stability (known management fee / funding agreement) it can be easier for the Council's strategic outcomes to be met.</p> <p>Staff from the existing facility would transfer under TUPE therefore retaining the local experience and knowledge to deliver against outcomes.</p> <p>Has the ability to attract additional funding streams compared to in-house option, which can be used to deliver facility and services interventions.</p> <p>More likely to have a locally focussed approach compared to an external contractor.</p> <p>Company profits can be repatriated to council, invested in the company or a mix of both.</p>

Stroud District Council
Management Options Appraisal – Priority Review
October 2021

Priorities	In-House	External Contractor	LATC/NPDO
		<p>External organisations have extensive stakeholder and customer engagement strategies, including via their website and social media, on-line surveys, customer and club forums, all of which can be specified within the specifications.</p> <p>Any change to service priorities can be managed through the annual service planning process and contract change procedures. However, this can have explicit financial implications if the changes are business critical.</p>	
<p>Given the success of the existing in-house management of The Pulse and the support team within the Council we are confident that an in-house operation would be successful in meeting outcomes and strategic priorities. There is sufficient resource, expertise, knowledge and experience to deliver outcomes, which is not always the case. It would be recommended however, that there is a management plan implemented with KPI's for performance and meeting outcomes to ensure the in-house delivery remains in line with strategic priorities and direction.</p> <p>An external contractor would have outcomes and KPI's set within their management contract but there would be little control/influence over <u>how</u> they are delivered/met. A similar arrangement would be required for an LATC/NPDO.</p>			
Customer experience and satisfaction. How well will services be planned, developed and delivered to improve/maintain quality of service. Ability to create high levels of customer satisfaction throughout all areas of service delivery	There is likely to be less monitoring of performance as there will be no management contract in place. However, the management team could incorporate customer satisfaction and quality KPI's into their management plans and monitor them regularly.	<p>External contractors can bring a breadth of leisure experience.</p> <p>The levels of service standards in areas that are important to the council can be tested through the procurement process.</p> <p>Through a robust contractual relationship, the Council can identify</p>	<p>Skill set of existing staff would transfer.</p> <p>Branding will need to be established.</p> <p>Customer satisfaction KPI's can be incorporated into the specification documents.</p> <p>More likely to have a local bespoke approach to customer service.</p>

**Stroud District Council
Management Options Appraisal – Priority Review
October 2021**

Priorities	In-House	External Contractor	LATC/NPDO
Exemplar quality of council and community facilities across the District	<p>The last customer survey at The Pulse in 2020, showed that the cleanliness across the three core activity areas is particularly good with no area scoring less than 4/5.</p> <p>The Council would need to re-brand SPLC and the Lido if it moved in-house and may need to consider District-wide branding to ensure consistency across the Councils facilities.</p> <p>The Council's in-house team achieved a Quest score of 'very good' at their latest assessment in May 2021.</p>	<p>continuation improved scores / and KPI's in relation to customer satisfaction scores etc.</p> <p>Large operators tend to be weaker at delivering bespoke commissioned health and wellbeing services.</p> <p>Branding and marketing tends to have a corporate approach, however requirements could be included within the specification to ensure marketing reflects the local area.</p> <p>External operators have extensive experience of achieve quality awards such as Quest.</p> <p>External contractors tend to take a corporate approach to customer service losing the 'personal' and bespoke approach that is common with in-house or LATC arrangements.</p>	<p>Will need to ensure robust operational procedures are set up and implemented to ensure the quality of service delivery is high. This may require external specialist support depending on experience within the team.</p>
<p>Currently the Council scores well with customer satisfaction and quality at The Pulse, whilst it is expected that this could be transferred to SPLC, as an older more complex building it will have more challenges.</p> <p>Experience at SPLC suggests that there are areas where quality and customer experience could be improved, however external contractors have extensive operational procedures that have been tried and tested over multiple contracts. Approach to quality and customer experience can be tested through the method statements during the procurement process. Approach to marketing, promotions and customer care is usually a corporate approach rather than being personal. Whether an external contractor or LATC/NPDO quality of service and meeting performance standards can be set within the contract documents and a performance management system could ensure penalty payments for failure to meet targets or rectify issues within agreed timescales.</p>			

**Stroud District Council
Management Options Appraisal – Priority Review
October 2021**

Priorities	In-House	External Contractor	LATC/NPDO
Revenue cost - running the service with a low or zero subsidy - what is acceptable	<p>The in-house operation is unable to gain NNDR relief. The Council currently receives VAT relief on swimming lessons, fitness classes and courses income, which is comparable to external operators, such as SLM. Although some operators may be able to gain additional VAT relief on some income streams that the Council currently doesn't.</p> <p>The Council is able to apply for external funding available only to statutory bodies.</p> <p>Due to the performance of The Pulse it is anticipated that under in-house management SPLC and the Lido would fare better financially than the current provider.</p> <p>The Pulse currently performs very well from an income perspective under in-house management against SPLC. However, due to the lack of control over maintenance costs, as they are managed centrally, expenditure is higher than other management options. Utility costs are also higher.</p> <p>Central support costs are typically higher than external contractors and</p>	<p>External contractors tend to set more ambitious targets against fitness and swimming lessons.</p> <p>An external contractor would operate with reduced central costs; however they would also include an element of profit in their business plans. Typically, they would bid with a margin of 10%-12% of turnover.</p> <p>The ability for the Council to achieve savings in their central costs as a result of transferring management of all centres to an external contractor will be key to achieving financial savings under this model.</p> <p>The Council requires external contractors to implement the real Living Wage therefore staff savings usually expected from external contractors will not be realised, however slight savings could be made from implementing different terms and conditions and staff structures.</p> <p>They are likely to receive VAT and NNDR relief (80% mandatory)</p> <p>Any profits made in the contract may not be re-invested back into the facilities or wider Stroud District.</p>	<p>The new company will need to have a suitable reserves policy and therefore the Council may have to provide a level of subsidy over and above any management fee in the early years of operation (or accept the cash flow risk).</p> <p>Likely to have higher central costs as it will require its own senior management team (Chief Executive, Finance Director etc.)</p> <p>The LATC would be required to implement the real Living Wage therefore staff costs comparable to in-house model.</p> <p>An LATC can be set up under an appropriate structure to receive VAT and NNDR relief.</p> <p>Likely to be able to apply for more funding than the local authority.</p> <p>There will be one-off set up costs for the LATC/NPDO.</p> <p>Any profit could be re-invested back into the facilities.</p> <p>Revenue risk will ultimately be underwritten by the Council</p>

Stroud District Council
Management Options Appraisal – Priority Review
October 2021

Priorities	In-House	External Contractor	LATC/NPDO
	<p>at The Pulse central support costs are higher than average.</p> <p>The in-house team has successfully implemented voluntary programmes at other facilities that could be transferred to the Lido, working with Friends of Stratford Park Lido to minimise expenditure on this site.</p> <p>Revenue risk of underachieving against budget sits with Council.</p> <p>Business Plans for the two leisure centres were completed as part of the Management Options report for each management model. Following investment, in a mature year the in-house option achieves the lowest overall surplus of c.£260k across both centres.</p> <p>However, due to the success of the in-house operation at the Pulse a surplus is still a realistic target. To achieve this the centres will require investment and better control over maintenance and utility costs will be required.</p> <p>Differences in expenditure are anticipated in:</p> <ul style="list-style-type: none"> • NNDR – In-house the Council will pay 100% of costs 	<p>A one-off cost of circa £100k-£120k should be included to cover the external advisors' (legal and leisure procurement) costs of procurement and other costs, for example condition surveys etc.</p> <p>Revenue risk sits with the operator not the Council. Therefore if income targets are not reached there is no change in the management fee paid to/by the Council.</p> <p>Economies of scale achieved from larger operators.</p> <p>The Business Plans completed for the two leisure centres show that in a mature year and post investment the external contractor option achieves the highest overall surplus of c.£600k across both centres.</p> <p>The main variances against the in-house model are:</p> <ul style="list-style-type: none"> • NNDR – It is assumed that external contractors will achieve 80% NNDR relief • Salaries – whilst all management models will be expected to pay Real Living Wage rates, external contractors can implement 	<p>The Business Plans completed for the two leisure centres show that in a mature year and post investment the LATC/NPDO option achieves a surplus of c.£352k across both centres, which is between the in-house and external contractor position.</p> <p>The main variances against the in-house model are:</p> <ul style="list-style-type: none"> • NNDR – It is assumed that a LATC will achieve 80% NNDR relief • Salaries – whilst all management models will be expected to pay Real Living Wage rates, a LATC could implement different terms and conditions and pension rates, therefore there could be some savings in staff costs. • Utilities and Maintenance costs would be expected to be comparable to in-house management. • Central costs – LATC's have higher central costs due the need for a senior management team for the contract such as Chief Executive and finance manager. These costs cannot be spread over multiple contracts. The median benchmark for these costs is 14% of expenditure.

Stroud District Council
Management Options Appraisal – Priority Review
October 2021

Priorities	In-House	External Contractor	LATC/NPDO
	<ul style="list-style-type: none"> Salaries – whilst all management models will be expected to pay Real Living Wage rates, external contractors, LATC and NPDO's can implement different terms and conditions and pension rates, therefore in-house staff costs are anticipated to be slightly higher than the other options. Utilities – At the Pulse in-house utility costs are high against benchmarks therefore utility costs at both centres are expected to be higher under the in-house option Repairs and Maintenance – In-house these are managed by a different department and therefore limited control by the management team results in higher than average costs. This would not be the case under alternative management models. Although the Council could discuss ways in which this could be managed more efficiently in-house. Central costs – in-house management typically has higher levels of central costs, the central costs for The Pulse are higher than average. 	<p>different terms and conditions and pension rates, therefore there could be some savings in staff costs against the in-house option they will also have the support of a central team that could reduce onsite staffing requirements.</p> <ul style="list-style-type: none"> Utilities – Generally external contractors achieve lower utility costs per m2, due to the economies of scale they can achieve across the company. Therefore the cost per m2 included in the business plan is lower than the in-house option. Repairs and Maintenance – Typically external contractors have lower maintenance costs due to economies of scale they can achieve. Therefore the cost per m2 included in the business plan is lower than the in-house option. Central costs – On average central costs are included by external contractors at c.7% expenditure. Profit – unlike in-house operations external contractors will require a level of profit to be built into their business plans which is typically around 5% of income. 	<ul style="list-style-type: none"> Profit – it is likely that an LATC will need to build up a level of reserves and therefore may include this within their business plan. <p>A NPDO will need to go through a procurement process and be successful, therefore there will be additional costs for the NPDO option compared to the LATC</p>

Stroud District Council
Management Options Appraisal – Priority Review
October 2021

Priorities	In-House	External Contractor	LATC/NPDO
<p>With investment there is a genuine opportunity for the 2 leisure centres to generate a surplus payment for the Council under each management option, however due to mandatory NNDR relief the external contractor and LATC/NPDO options will create a higher surplus than the in-house option.</p> <p>Ultimately with a LATC/NPDO income and expenditure risk would sit with the Council as per the in-house option, however with an external contract a substantial amount of risk could be passed over to the operator. The Council will receive a fixed management fee for the length of the contract with an external contractor, giving budget certainty. There is also the potential for a profit share arrangement whereby if the contractor achieves more than projected the Council receives a share of the additional profit.</p>			
<p>Council influence and control. How important to you is having control and managing the risk over the service on a day to day basis</p>	<p>The Council will be able to exert the most direct control over services through the in-house management option.</p>	<p>The external contractor must deliver against the Council's specification and contract. The specification will include an annual service planning element to ensure that the Council's changing requirements can be incorporated into future service delivery.</p> <p>An outsourced partner will report to its own board of trustees / directors who may have differing objectives to the Council.</p> <p>Significant changes to service delivery can be more formal; whilst flexibility in contracts can be included, there may be financial consequences to any significant changes.</p>	<p>The specification will set out the Council's priorities in respect to pricing / programming and other elements of service delivery.</p> <p>An annual service planning element of the specification can ensure that the Council's changing requirements can be incorporated into future service delivery.</p> <p>There is Council representation on the board, the governance structure will need to be carefully considered to get the right balance between council influence and interference.</p>
<p>Whilst the Council will be able to exert some control through the management contract and specification for an external contractor and LATC, ultimately it can only have true control through the in-house option.</p> <p>In-house all risk will sit with the Council so whilst the Council will have control and manage the risk directly, this will have cost implications. Under the external contract a proportion of risk will be passed over. There will be a fixed management fee from an external contractor giving the Council cost certainty throughout the contract period, which could be beneficial from a budgeting perspective.</p>			

**Stroud District Council
Management Options Appraisal – Priority Review
October 2021**

Priorities	In-House	External Contractor	LATC/NPDO
Staffing - using local employment, impact on terms and conditions, future opportunities for staff development, payment of the living wage for the lowest paid staff.	<p>All the existing staff skills and operational practice transfer back to the Council at SPLC and the Lido.</p> <p>It is likely that there could be increases in staff costs at SPLC and the Lido, where new employees would be employed on Council terms and conditions, however wages across all sites are required to meet the real Living Wage, therefore salary/wage costs are comparable across all options.</p> <p>Scope for progression for employees is limited to within the Centre/Council.</p>	<p>Staff will be subject to TUPE so all current terms and conditions would be protected in accordance with legislation.</p> <p>External operators are likely to offer new joiners their own company terms and conditions, which may vary from the current terms and conditions. This could result in some staff cost savings.</p> <p>External operators will offer training and development for staff specialising in the leisure industry.</p> <p>Any externalisation may crystallise any pension deficits. It is very likely that the Council would remain responsible for this under any externalisation process.</p> <p>An established external operator is normally able to offer staff wider career opportunities within the company structure that otherwise would not have been available with a single contract operator.</p> <p>Possible that some employees could be brought in from other contracts, therefore percentage of employees from the local area could be reduced. However, the Council could stipulate</p>	<p>Staff would transfer to the new Trust under TUPE, with their terms and conditions protected.</p> <p>A new LATC/NPDO would require central posts that are not currently in place such as a Chief Executive, Finance Director etc.; this results in higher central costs.</p> <p>As a single contract entity scope for progression is limited.</p> <p>The local authority is likely to have to underwrite the pension liability. It is not reasonable to expect the LATC/NPDO to take on any pension deficits</p> <p>A LATC/NPDO could offer new joiners their own company terms and conditions, which could result in some staff savings although noted that the Council will require living wage to be implemented.</p>

Stroud District Council
Management Options Appraisal – Priority Review
October 2021

Priorities	In-House	External Contractor	LATC/NPDO
		in the specification that a certain percentage of employees must live in the local area.	
<p>As the Council currently funds Real Living Wage and the expectation is that this will continue then the opportunity for an external contractor to make significant staff savings is minimal. Typically staffing is an area where external contractors can offer savings but this won't be the case in Stroud.</p> <p>External contractors are likely to bring in management support at a regional level that won't be locally based, however all existing staff will TUPE across. Both the in-house and LATC options give the most certainty in terms of employing local people. However, one of the benefits of an external contract is that they are usually able to offer more options for career progression and training within their organisations.</p>			
Joined up council provisions for residents (fit for future)	<p>Linked to the ability to deliver Council outcomes.</p> <p>Joined up working to achieve Councils outcomes and 'fit for future' aspirations are more easily deliverable under the in-house option.</p>	Can include outcomes and requirements in specification, however the Council will have limited input into how this is delivered.	Can include outcomes and requirements in specification, however the Council will have limited input into how this is delivered. However, more likely to have a local approach than the external contractor option.
Requirements for delivering under the fit for future agenda can be built into service specifications, however it will require partnership working with various Council departments, which will be easier to deliver and manage if the contract is managed in-house.			
Giving up control of the facilities and services related to Leisure, health and wellbeing in return for investment within the current centres and potential new build		<p>National operators are more likely to be able to fund equipment / ICT fit out and lifecycle works. They have good supplier links and achieve economies of scale.</p> <p>Pre-Covid, organisations could access funding for smaller investments, but the preference was very much for the Council to fund larger scale works projects. The borrowing rates were more cost effective and as operators do not</p>	<p>LATC/NPDO will not have direct access to capital resources, the responsibility will remain with the Council.</p> <p>However, where the Council funds capital investment, the LATC/NPDO will use the revenue improvements to repay the capital costs.</p> <p>Ultimately though with LATC/NPDO having a limited trading history, any</p>

Stroud District Council
Management Options Appraisal – Priority Review
October 2021

Priorities	In-House	External Contractor	LATC/NPDO
		<p>'own' the buildings, loans are based on future revenue improvements as opposed to using assets / long leases as collateral. With Covid-19 impacting reserves, operators are likely to have less access to capital resources for even the smaller investment projects.</p> <p>The Council is more able to transfer the full risk of any investments to partners in terms of project delivery and business plan projections.</p> <p>Many organisations have delivered capital projects and have established supply chains with specific leisure experience.</p> <p>Some partners can offer VAT efficient build schemes, where the Council is the principal for the capital development schemes and the operator is the principal for the revenue.</p> <p>Whilst it is still the Council that can access capital investment more cheaply, the benefit is that external contractors typically have experience of being innovative and investing into customer critical areas and there are many examples where the operators have significantly reduced the revenue position with investment into</p>	<p>risk of these payments being made falls back to the Council.</p>

**Stroud District Council
Management Options Appraisal – Priority Review
October 2021**

Priorities	In-House	External Contractor	LATC/NPDO
		<p>facilities but importantly taken the delivery risk.</p> <p>All capital improvements are based on a 'pay back' period or return on investment, based on the contract length.</p> <p>Given the investment proposed at the leisure centres it is anticipated that the Council would still be required to fund it under an external contractor arrangement, however they would benefit from the experience and expertise of delivering the projects and reduced levels of risk.</p>	
<p>The likelihood is that the Council will need to fund any major work and therefore it will be down to the ability to project manage and deliver investment schemes. Whilst existing contractors have experience of comparable investment projects there is support through development partners that the Council could utilise to ensure projects remain on budget and are delivered within timescales. Realistically, we would expect external contractors to provide investment for fitness equipment but based on the current market they are unlikely to provide additional funding. Private funding is also more expensive than prudential borrowing.</p> <p>If the Council decided to procure a contractor they could tender a Design, Build, Operate and Maintain (DBOM) contract to deliver the investment at both centres. In this process the Council would still be required to fund but bidders would provide their own investment solutions within the Council's affordability limits and they would have responsibility for delivering the scheme when the new contract starts. This option would minimise delivery risk to the Council. Through the tender process the Council would have the opportunity to discuss and feedback on their design schemes to ensure it meets requirements. Whilst the Council can stipulate a minimum facility mix this option does give operators the flexibility to be innovative and come up with solutions that will ensure the financial sustainability of the centres.</p>			