

STROUD DISTRICT COUNCIL

COMMUNITY SERVICES AND LICENSING COMMITTEE

THURSDAY, 22 JUNE 2023

Report Title	Leisure Management Recommendation
Purpose of Report	The purpose of this report is to seek approval from the Council to bring Stratford Park Leisure Centre (SPLC) inhouse creating a Leisure Services Team with effect from 1st November 2024.
Decision(s)	<p>The Committee is asked to RECOMMEND to:</p> <ul style="list-style-type: none">a) a. Strategy & Resources and Full Council to bring Stratford Park Leisure Centre inhouse operating both leisure centres and creating a Leisure Service for Stroud District Council as the preferred option as identified in the management options appraisal and business case.b) Full Council to delegate authority to the Strategic Director of Communities in consultation with the chair of Community Services and Licensing to set up the service within an agreed operating framework, quality assurance programme and reporting mechanism.c) Strategy & Resources to ringfence the required element of the 2022/2023 Stroud District Council gain from the Gloucestershire Business Rates Pool for the set up costs of the inhouse provision.d) Full Council to delegate authority to the Strategic Director of Communities in consultation with the Chair of Community Services and Licensing to produce a detailed capital investment plan to support the development of the existing centres and future provision within the district. This plan would then be considered by Council for inclusion within the capital programme when required.e) Full Council delegates authority to the Monitoring Officer to update the Terms of Reference for the Audit and Standards Committee to enable them to receive relevant assurances in relation to internal control and risk management within the inhouse option.
Consultation and Feedback	In the development of the options appraisal, the research into setting up a Local Authority Trading Company (LATC) and associated with this the Leisure and Wellbeing strategy (2021) there has been comprehensive consultation and feedback from the Leisure Task and Finish (T&F), members of the community, user groups, the community and voluntary sector, public health professionals and partner organisations.

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Options	The CS&L Committee could determine not to accept the recommendation and to review alternative methods of delivery. See paragraph 1.4			
Background Papers	None			
Appendices	Appendix A– Management Options Appraisal Appendix B – Inhouse v LATC options appraisal Appendix C – Review of Inhouse options v’s LATC Appendix D – Vision and Values Appendix E – Risk Register Appendix F – Executive summary Leisure and wellbeing strategy Appendix G – Equality Impact Assessment			
Implications (further details at the end of the report)	Financial	Legal	Equality	Environmental
	Yes	Yes	Yes	No

1. BACKGROUND

- 1.1 Stroud District Council contracted the operation of its leisure facility at Stratford Park to Sports and Leisure Management (SLM) in 2011. The original contract was for a 10-year period to 31st October 2021. In January 2020 this was extended to 31st October 2024 to allow the council time to consider options for the future delivery of its leisure facilities.
- 1.2 In September 2021, the Community Services & Licensing Committee (CS&L) considered a report from the Project Manager for Leisure, Health and Wellbeing seeking the adoption of a Leisure and Wellbeing Strategy for the period 2012-2041. The outcome of that report was that CS&L delegated authority to the Strategic Director of Communities in consultation with the chair of CS&L to make recommendations back to the committee on the preferred option for managing the councils’ leisure and wellbeing facilities post October 2024.
- 1.3 To assist in reviewing the options the council commissioned Max Associates to develop a detailed options appraisal. A copy of their appraisals is attached at Appendix A and B. A cross-party Leisure Review Task and Finish Group (T&FG) was then established to consider all the available delivery options. A summary of the options considered are contained in paragraph 1.4 of this report.
- 1.4 Options
- 1.4.1 Re-procure an External Contractor

This model would provide a level of cost certainty due to the nature of having a fixed management fee profiled over an extended period. However, following Covid and the increase in utility costs the leisure market has become uncertain and therefore the management fee is likely to include a ‘risk’ element thereby increasing the costs when compared against the current contract.

There is the option of open book accounting whereby the cost of the management fee is related to the income of the contractor.

Whilst this option would have the benefit of removing the council from the day-to-day operational management of the facilities, the council would be unable to influence the strategic direction of business and therefore would be unable to align its own corporate objectives and priorities.

1.4.2 Create a locally established 'not for profit' organisation (NPDO)

Creating a Trust has significant advantages when it comes to applying for external funding because it can apply for funding which is not open to local authorities. As a trust model has a requirement that all profits be re-invested back into the services/facilities it ensures local investment. The Trust model also opens alternative options for the treatment of VAT and provides for a reduction in the amount of Non-Domestic Rates, therefore from a financial perspective it is an attractive option. However, due to changes in legislation this option requires the council to run a procurement process, which the Trust would be required to bid. This results in a risk to the council that the Trust may not be awarded the contract and it becomes surplus to requirements.

1.4.3 Create a 'joint venture' in conjunction with another Local Authority

The benefit of this model enables the authorities to realise economies of scale of officer time and other resources.

With neighbouring authorities implementing their own leisure/physical activity strategies, the Councils are likely to have different aims and objectives.

1.4.4 Create an Asset Transfer on a long-term lease.

This model creates a level of financial certainty for the council as it will absolve itself of any financial responsibility and will create savings against the current budget. However, it would result in the council also relinquishing control of the facilities and having no further say in their operation or management.

1.4.5 Create a Local Authority Trading Company (LATC)

Creation of an LATC enables the council, as sole shareholder to set the overall aims and objectives of the Company. With the council responsible for the strategic direction the board is responsible for the day-to-day operation. This model enables savings on Non-Domestic Rates and different options for the treatment of VAT. Whilst council control is retained the more "commercial" element of the LATC provides opportunities for development and growth. This does not mean that the model is not without risk to the council, and this should be effectively considered in determining whether to pursue this option.

1.4.6 Bring Leisure Services back 'in-house'.

An in-house service provides the greatest opportunities for alignment with the councils' corporate objectives and ensures that all decisions are considered and taken in the context of delivering against the Council Plan and the impact on local communities. However, financially the model is challenging due to the additional

staffing and pension costs (under local government terms and conditions) and the liability for Non-Domestic Rates.

- 1.5 Following completion of the initial review, the in-house model was identified as being the preferred option. However, this was subsequently discounted by the T&FG due to the financial implications that existed at that time. The T&FG therefore recommended that a LATC be created as the preferred option for the Council to manage its leisure facilities from November 2024. This recommendation was presented to CS&L Committee in December 2021 who resolved to agree the recommendation from the T&FG and delegate authority to the Strategic Director of Communities in consultation with the chair of CS&L to explore a local authority trading company option and report back to this committee with a full financial analysis.
- 1.6 This report along with the detailed business case was ready to be presented to CS&L Committee in March 2023. However, on the 3rd of March 2023 HMRC published a paper regarding the treatment of VAT in the local authority sector. The paper set out that inhouse leisure services provided to the public would no longer be classed as business activity and therefore would be removed from the scope of VAT. This not only means that the council would now be in a different position in terms of reclaiming VAT but also that the previous risk of breaching our partial exemption limit has now diminished.
- 1.7 The VAT rules in place prior to the ruling meant that approximately 17% of the income for key income streams such as memberships and public swimming would be passed to HMRC as VAT.
- 1.8 The change in the treatment of VAT has a major impact on the financial modelling included within the options appraisal, therefore consultants were asked to prepare a new business case applying the new VAT rules and comparing it against the previous business case for the LATC. This is set out in Appendix C. The new business case, as set out in Appendix C, confirms that the change has resulted in going from an LATC having a VAT financial advantage, to the council (inhouse model) having a VAT advantage (as the council would be able to reclaim all, or nearly all , VAT on expenditure, whereas the LATC would not), and keep VAT on key activities.
- 1.9 Acknowledging the revised business case and the fact that setting up an LATC no longer has the financial advantage a decision was made at the Senior Leadership Team (SLT) meeting on 25th April to present the revised business case to the T&FG with an extended invite to all CS&L committee members so that officers were able to explain the rationale behind changing the recommendation from setting up an LATC to bringing SPLC inhouse from the 1st of November 2024.
- 1.10 The T&FG met on the 3rd May to review the business case and agreed to the revised recommendation of bringing leisure services back inhouse.

2. STROUD DISTRICT COUNCIL LEISURE SERVICES VISION

- 2.1 SDC already operate a successful Inhouse leisure facility “The Pulse, Dursley”. This is measured on Sport England Moving Communities Data Hub which tracks and compares leisure facilities across the country.
- 2.2 The LATC and inhouse option are very similar with both the risk and reward sitting with the council. There are three key differences of inhouse.

- Council pay full NNDR costs.
 - The management and board structure
 - The council has full control on how the service will operate.
- 2.3 Bringing SPLC inhouse affords us with an opportunity to create a service with a clear vision and strategic direction to maximise its potential to run effectively within the Leisure Centres and in the local community.
- 2.4 The vision and values created for the LATC is the same for inhouse. See Appendix D.
- 2.5 A Leisure Services Manager will be recruited at least 12 months prior to contract end to establish the service along with an officer working group, and strategic project board.
- 2.6 The inhouse operation will form part of the Community Services Team.
- 2.7 To maximise efficiency and quality of leisure provision the service will be monitored against an operational specification, annual business and longer term development plans and be subject to industry quality assurance awards.
- 2.8 The service will create its own identity and culture through rebranding, service development and realigning with council objectives.
- 2.9 The service will work closely with the NHS and other charitable organisations to support the Gloucestershire Integrated Care System (ICS) strategic objectives such as the preventative health and wellbeing programmes. See Appendix F leisure and wellbeing strategy executive summary.
- 2.10 The service will have the ability to work in all sectors of the community and will provide activities for the promotion of physical and mental health activities at no or low cost to the user, thus providing 'high value' Social Impact in its communities.
- 2.11 This Leisure Service will provide quarterly performance updates to CS&L and will be further monitored annually by audit and standards committee.
- 2.12 Further consideration will be given to how the service conducts itself through the appointment of the leisure services manager and the strategic project board.

3. HUMAN RESOURCES IMPLICATIONS

- 3.1 There is currently a total 69 contracted individuals employed by SLM who will be transferred into the council. These staff will be protected by the Transfer of Undertakings for the Protection of Employees (TUPE) Regulations 2006 and will transfer into the employment of Stroud District Council.
- 3.2 Leisure Centres also rely on many casual employees to deliver its service. There is currently a total of 30 casual individuals who will be protected under TUPE.
- 3.3 Casual employees can be seasonal and therefore the above figure is a guide and will be dependent on the time of transfer to the number employed.
- 3.4 Current staff employed at Stratford Park, under the employment of SLM, will undertake the TUPE process with support from SLM and the councils Human Resources (HR) service.
- 3.5 SLM will provide HR with a comprehensive list of staff and their official capacity.
- 3.6 Regular meetings and information notes will be delivered at regular intervals commencing in Spring 2024.
- 3.7 Staff transferring from SLM will be able to keep their current pension scheme or be offered the council's Local Government Pensions Scheme (LGPS)

4. FINANCIAL IMPLICATIONS

Set up costs

4.1 Bringing SPLC back inhouse will incur specific one-off expenditure, for example: procuring services such as Marketing and Branding, and leisure management system: redecoration of both facilities, equipment, IT infrastructure and additional HR support. A contingency has also been included to cover unknown costs. These costs are expected to be in the region of £367K, as detailed in the table below and Appendix C page 12.

4.2

Set up Costs	2023/24
IT	£95,960
Marketing/Branding	£40,000
Re-decoration	£20,000
Staffing Support	£65,076
HR Support – TUPE	£17,279
Leisure Management Systems	£50,000
Equipment	£45,000
Total	£333,315
Contingency	£33,331
Total Cost	£366,646

4.3 The Council currently receives an annual, unbudgeted, gain from the Gloucestershire Business Rates pooling arrangements. In 2022/23 this is £438k and forms part of the Council outturn position. It is therefore recommended that Community Services and Licensing Committee requests that Strategy and Resources Committee consider the rates pool, alongside other funding sources, to ensure that the set up costs of the inhouse provision are fully covered with the Councils reserves.

Operating cost

4.4 The business case sets out the estimated subsidy for Leisure Services including SPLC, the Pulse and the Lido estimated between £431K and £524K for each of the first five years as shown in the table below. A summary for each facility is included at Appendix C pages 8 to 10.

Total Income	Year 1	Year 2	Year 3	Year 4	Year 5
SPLC	2,062,847	2,101,099	2,108,233	2,108,270	2,108,287
LIDO	61,832	61,832	61,832	61,832	61,832
PULSE	1,588,199	1,609,698	1,609,721	1,609,732	1,609,737
Total	3,712,877	3,772,629	3,779,786	3,779,834	3,779,856
Total Expenditure					
SPLC	2,268,826	2,296,106	2,247,714	2,259,342	2,271,316
LIDO	161,474	162,300	163,144	164,004	164,881
PULSE	1,441,806	1,430,973	1,434,454	1,438,004	1,441,624
Central Support	368,873	368,873	368,873	368,873	368,873
TOTAL	4,237,662	4,254,996	4,210,928	4,226,965	4,243,437
Deficit/Subsidy	-524,785	-482,367	-431,143	-447,132	-463,581

- 4.5 The central support charges are the additional staff costs which make up the central support team for Leisure services. See Appendix C page 11.
- 4.6 The central support charges were taken as a comparison from the LATC model. Further savings will be made in this area as we will not require the same level of support as this will be taken up by existing central support staff from the existing Community Services team.
- 4.7 The business case for SPLC was created using 2019/2020 pre-covid accounts and an assumption of the 2023/2024 income and expenditure based upon current performance. The business plan predicts an increase in income due to the following:
- Increase in casual fitness income due to increasing the number of fitness classes by 100%
 - Increase in swimming lessons and casual swimming.
 - Improving sports provision
 - Improving the performance of catering
- 4.8 The business case for the Pulse was created using 2019/2020 pre covid accounts and the forecasted income and expenditure 2023/2024:
- The business plan shows the revised VAT position.
 - An increase in membership sales
 - Without investment, there is little room to increase income further at the Pulse. The main increase in income is reflected by the increase in income at SPLC.
- 4.9 For comparison purposes the draft budgeted cost for running Stratford Park Leisure Centre and the Pulse in 2023/24, excluding internal support charges, is £367k.

5. OTHER CONSIDERATIONS

- 5.1 Within Appendix B (page 10) the lido business plan is shown separately. If the Lido is retained, Stroud District Council must recognise that it contributes to the operating costs in excess of **£110k** per annum to keep it open to the public. The Lido has been identified as a risk to SDC as requires significant investment to maintain and modernise the facility.
- 5.2 SPLC is an aging facility and will require significant investment which will form part of the capital investment plan.
- 5.3 A conditions survey is required to identify the condition of all three facilities specifically the plant, and building structures which will inform the capital investment plan and any required remedial works.

6. PERFORMANCE MANAGEMENT AND GOVERNANCE

- 6.1 Expanding the leisure service is an additional risk for the council. To minimise this risk CS&L Committee will be the reporting committee for the service. It is also recommended that the terms of reference of the Audit and Standards Committee are amended to include provision for the committee to receive assurance that there are sound systems of internal control and risk management.
- 6.2 A leisure services officer and member working group will be set up to develop and monitor the performance of the service measuring its performance against a leisure specification to ensure financial and operational efficiency, and quality of service.

6.3 Further mitigation against the risks is expanded within section 7.

7. RISKS

7.1 A detailed risk analysis has been completed and is attached in Appendix E. In summary some of the risks associated and measures to mitigate against are included below:

7.2 An optimism bias that does not reflect the true position of performance of the inhouse model or a lack of an appropriate business case. The Pulse is currently punching above its weight and is performing within the upper quartile when measured against the performance of other leisure providers in the UK, especially with reference to the operation of swimming lessons.

- A detailed business case and quarterly reports with key performance indicators (KPI's) will form part of the monitoring process.
- A Leisure Manager will be recruited to develop the centres and work closely with the Health and Wellbeing team to deliver the councils Leisure, Health, and Wellbeing Strategy.
- A service specification will be developed to ensure the service meets financial and quality targets.
- The facilities will undergo Leisure industry quality assessments.
- The company will report back to CS&L and will be scrutinised by audit and standards committee.

7.3 A new operator opens a facility(s) within the Stroud District and therefore increases market competition.

- The service will work with a professional marketing company to market themselves effectively.
- High quality customer experience training will be a standard part of the induction plan for all new colleagues to ensure we meet the needs of all customers.
- Programme development and customer consultation will be a standard imbedded within the culture of the business.

7.4 A downturn in demand for leisure and health facilities

- The Leisure Services Manager will work closely with other industry professional bodies to keep on trend with the latest industry developments.
- Health and wellbeing activities will be delivered both in and out of the centres working with health partners to deliver within the communities of the district, bringing a diverse and varied programme.

7.5 Income targets for sustainability cannot be met.

- The service will be monitored against a set of agreed performance criteria.
- A detailed business development plan is agreed, and performance is reported to CS&L committee through quarterly performance monitoring.
- The Leisure Manger will be part of networking groups to share good practice throughout the industry.

7.6 A major failure in the structure or plant of either of the facilities resulting in closures.

- The conditions survey will mitigate against this.

- An investment development plan for the centres to be approved within the next 3-5 year to reduce the likelihood of facility closure.

7.7 Inadequate financial governance and monitoring

- This will be detailed within the performance specification document.
- The service will follow council financial procedures.
- The service will report back monthly on financial targets.
- The service will report back to CS&L and Audit and Standards Committee.
- The service will feature in the audit plan.
- The service finance and usage will continue to be monitored through Data Hub on the moving community's platform.

7.8 Poor business development vision

- The Leisure Services Manager will have relevant industry experience.
- The specification will require a detailed annual and three year development plans
- Capital investment plan will be developed to modernise the centres.

7.9 Lack of scrutiny over investment and loan decisions

- All loans and investments to develop the centres must be approved through the committee process.
- All developments are professionally sourced with a detailed consultation programme.

7.10 Poor communication on TUPE transfer process and how the service will operate

- Communications plan in place for when the transfer decision is made up until the hand over date. To include but not limited to; staff meetings, newsletter, training and social events.
- HR involved 12 months prior to handover to work through the logistics of TUPE, and induction process.
- Leisure Services Manager recruited at least 12 months prior to contract handover.

7.11 Poor induction of the new team into council employment

- Roles and responsibilities of each team member will be clearly defined in their job descriptions.
- All new team members will go through a council induction plan and a leisure specific training plan based upon the specification.
- All existing leisure team at the Pulse will go through the leisure specific training plan based upon the specification.

7.12 A major Pandemic

- Whichever operating model is chosen the risk will always sit with the council.

8. THE KNOWN UNKNOWNNS

8.1 Bringing SPLC back inhouse gives us some certainty as we already operate a leisure facility using this model. There are however areas we cannot be certain of, and we call these the known unknowns. The business case presented in this report is representative of today's performance, prices, and costs. Further work is needed as we move towards the transfer date when some of the questions will be answered.

8.2 Below are some of the identified known unknowns which will have an impact on the new leisure service.

- The direction utility prices will take over the next 5 years.
- What the conditions survey will tell us about the facilities and how much investment is needed
- What work can we undertake to the leisure centre whilst the current contractor is on site?
- How much equipment do we need to invest in prior to transfer.
- The continued impact of the cost of living crisis and the impact it will have on the revenue of the facilities.
- The skills and knowledge of the team at SPLC
- The recruitment of qualified core staff to deliver the service.
- The quality of the Leisure Services Manager
- The finalisation of the set up costs.
- The rate of inflation and the impact in borrowing for capital investment
- The recruitment of an effective marketing and branding company
- The cost of a new Leisure Management System
- Do we need to recruit further support staff e.g., HR officer beyond the TUPE arrangements?

8.3 All leisure options come with a degree of uncertainty. When the consultants and T&FG conducted the options appraisal, the decision was made to provide the citizens of the district with a high-quality service at an affordable price in the facilities and in the towns and parishes where they live.

9. CONCLUSION

9.1 The Leisure Industry continues to change. The latest development with the treatment of VAT for inhouse leisure provision is a prime example. Councils across the country are looking seriously at how their facilities are operated. Stroud is not alone in this.

9.2 The inhouse option was rated as the preferred option during both options appraisals in order to meet the priorities for the district. As we already operate the Pulse, inhouse the changes in VAT for inhouse leisure provision has enabled us to seriously look at this option.

9.3 Despite the risks identified, and the list of known unknowns it should be recognised that bringing SPLC inhouse and running both facilities under a Leisure Service remains the best option and solution to provide high quality activities to the whole spectrum of ages, abilities, and genders within the Stroud District for its communities in a 'cost effective' manner.

10. FUTURE CAPITAL INVESTMENT

- 10.1 It has been identified that, due to the age of the current leisure assets, a significant amount of capital investment will be required in the future.
- 10.2 Max Associates developed high level investment appraisal, however at this stage further work is required.
- 10.3 It is recommended that the service is allowed to stabilise prior to any significant capital works.

11. IMPLICATIONS

11.1 Financial Implications

The set up costs of an inhouse model are shown at the table in paragraph 4.2. This sum has been fully provided for in the Council's 2022/23 year end accounts and Strategy and Resources Committee are recommended to approve the use of that sum for the set up costs.

The annual running costs of an in house model are shown on Page 7 of Appendix C. These are estimated at between £431k and £525k over the next five years as the in house service gets up and running. These estimates include an annual provision of £73k for contingency costs. It is not standard Council practice to include contingency within budgeted sums but it is included here as a result of the inherent uncertainty of the major service change. This money may not be required in the budget longer term.

That cost includes central support costs of £369k per annum as shown on Page 11 of Appendix C. These costs are estimated at this stage and final structures will need to be included in the Medium-Term Financial Plan at a later date.

The amount included in the current Council budget for the operation of the Pulse and Stratford Park Leisure Centre is £367k pa. Upon the transition to an in house service it is currently estimated that an amount of between £64k and £160k per annum will need to be added to the Medium Term Financial Plan. As per previous paragraphs this includes £73k of contingency costs which may not be required.

There are no capital investment sums included in this decision. Any future investment in the centre would need to be the subject of a separate report to Council.

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11.2 Legal Implications

Leisure services play a key role in the delivery of the public health agenda and contribute to broader statutory duties and national objectives to improve the local populations wellbeing.

Officers will work with One Legal to review the terms of the existing contract and lease arrangements with SLM and agree an exit plan to ensure that SDC are able to effectively manage the transfer of staff and property and ensure a smooth transition of the services.

One Legal

Email: legalservices@onelegal.org.uk

11.3 Equality Implications

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

11.4 Environmental Implications

There are no significant implications within this category.