

Agenda Item 4
Overview and Scrutiny Panel



Date: **15 August 2016**

Report Title: **Leisure Management Options Project - Process Overview**

1 Summary

As part of the Comprehensive Spending Review (CSR) process, the Council has decided to retain the current leisure service provision, whilst considering alternative management options for the service to improve the Council's financial position.

A project roadmap has been developed setting out a phased approach; to undertake a review of service delivery options with outline business cases, produce a final business case and then implement service changes.

Work is currently underway to develop outline business cases for a number of future management options, which will be reported to Cabinet in the autumn.

2 Key issues

- The estimated net cost for leisure services is £549,183 in 2016/17, excluding internal recharges.
- Over the past 5 years the net cost of providing the service has reduced significantly. However, to achieve significant further reductions it is considered necessary to consider alternative options for the delivery of the service and its management arrangements.
- There are several potential management options available to the Council, as well as a 'do nothing' option and retain the service in-house;
 - Procure a third party operator through a competitive process.
 - Set up a local Leisure Trust, at arms-length to the Council.
- The project has been split into three phases, namely:
 - Phase I:** Outline business case to inform further focussed work
 - Phase II:** Full business case, focussing on one potential option
 - Phase III:** Formal EU procurement of a managing partner or development of an arms-length management vehicle to manage leisure services

Wards Affected	All Wards
Portfolio Holder	Cllr Michelle Tanfield, Portfolio Holder for Leisure
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Background Papers	Sport England; Leisure Options Guidance, 2016 Parliament briefing paper 05950, Local Government: alternative sources of service delivery, May 2016

3 Background

- 3.1 The Council has considered alternative management options for the leisure service a number of times in the past. The service has been retained in house on each occasion, with recommendations being implemented that have improved the offer to the customers, increased income and resulted in cost-reduction initiatives. This has reduced the overall net cost of the service to the Council. However, to achieve further financial efficiencies it is necessary continue to consider alternative options for the delivery of the service and its management arrangements.
- 3.2 Following the Council's CSR process in late 2015, Officers have been tasked with investigating alternative management options to the current in-house model for leisure services.
- 3.3 Aside from remaining in-house, there are three other potential options open to the Council;
- Private sector management
 - Management by an existing leisure trust
 - Establishment of a new local leisure trust
- 3.4 Work is currently underway to evaluate these options and develop an outline business case for each to help determine further focussed work.

4 Roadmap for the leisure management options project

- 4.1 Any change in management options for the leisure service will be a significant decision for the Council. In order that Members are well informed regarding the process and progress, the project has been split into three phases: Members should note that all of these target dates are provisional.

- **Phase I:** (current work - October 2016)

An evaluation of options available to highlight the best fit for the Council.

Planned Member consultation

- 15 August: O & S panel meeting
- 6 October: All Member seminar
- 20 October: Cabinet

- **Phase II:** (November 2016 - February 2017)

Building a comprehensive business case regarding the 'best fit' option, including work to undertake financial modelling.

Planned Member consultation

- All Member seminar (date to be confirmed)
- February 2017: O & S panel meeting

- 22 February: Cabinet and Council

- **Phase III:** (March 2017 - October 2017)

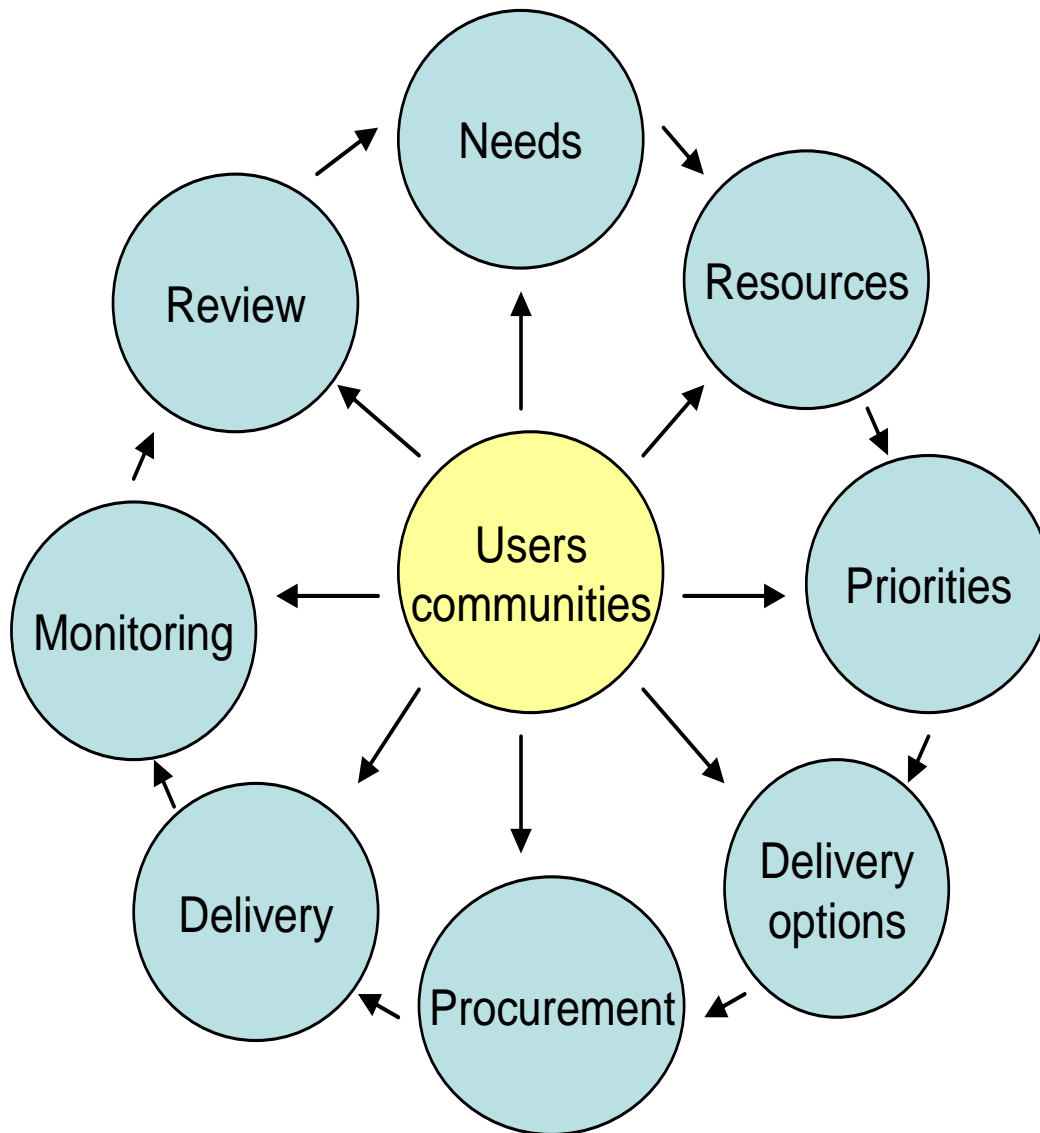
Implementation of any agreed model.

- 4.2 Given the significance of this project, as indicated, each phase incorporates significant member consultation and engagement including reports to Overview & Scrutiny Panel and the use of All-Member seminars. This process will ensure that Members have opportunities for consultation and discussion regarding the project and to also be able to track overall progress.
- 4.3 Any final decision regarding Phase III of this project will be reported to Cabinet for a subsequent recommendation to full Council.
- 4.4 In addition to a Member engagement plan, staff will also be kept informed and consulted about the process and progress made.

5 A framework for assessing Management Options; The Commissioning Cycle

5.1 The Council is following a commissioning model which sets out the approach we will follow to consider the future provision of the leisure service. This model follows national best practice and helps ensure that service will meet local outcomes based on the needs of the local community.

5.2 The model is summarised below:



5.3 The Council has commenced the leisure management options project at the **review** phase.

5.4 The ongoing work in **Phase I** of the project takes the Council up to and includes a high level assessment of the Delivery Options aspect of the commissioning cycle.

5.5 **Phase II** of the project develops an in depth assessment of the Delivery Options aspect of the commissioning cycle, producing a focussed business case for one selected option.

- 5.6 **Phase III** of the project then moves onto the Procurement, Delivery and Monitoring aspects of the commissioning cycle.

6 Phase 1 - ongoing work to date

- 6.1 Prior to a Cabinet report regarding Phase I work scheduled for October 2016, considerable background investigation and preparatory work is being undertaken, moving through several aspects of the commissioning model as detailed below.

Commissioning Model; Review Phase

Review of previous Leisure Management Options appraisal

- 6.2 A management options appraisal was carried out regarding the Council's leisure service in 2009/10. Since this time the Council has invested capital funds to improve facilities and has also made significant operational improvements. These changes have resulted in a significant reduction in the direct net cost of operating the facilities from £1.076m in 2010/11 (before the Chatteris Centre was part of the portfolio) to an outturn of c.£597k in 2015/16.
- 6.3 A review of the recommendations made as part of the 2010 work, highlights that the Council has followed the recommendations made. This being the case, a further assessment of the service is timely.

Review of current performance

- 6.4 In late 2015, a review of the Council's leisure service income performance was undertaken against industry benchmarks, taking into account local population data for the District. Compared against benchmark data for other in-house leisure services, income levels are close to benchmark levels, with some potential for income level improvement.
- 6.5 Comparing current income levels against other management models highlights that the current financial performance is not yet at a level that a commercial third party managing the facilities may achieve.
- 6.6 These findings add further weight to the consideration of different management options for the service.

Commissioning Model; Needs and Resources Phases

Indoor Sports Facility Strategy

- 6.7 In order to progress an informed piece of work regarding management options, consideration regarding the current and expected future demand (needs and resources) for the service is required. The Council has received support from Sport England to draw up two strategies, that have now been adopted by the Council.
- Indoor Sports Facility Strategy
 - Playing Pitch Strategy

- 6.8 Whilst the playing pitch strategy refers, in the main, to local community sports clubs, the indoor sports facility strategy clearly highlights the key role that the Council plays in providing indoor sports facilities to the Fenland community.
- 6.9 In summary, the indoor sports facility strategy highlights that the current level of indoor sports provision provided by the Council and other local providers is broadly adequate for Fenland's current population levels. This supports Members' CSR decision that the leisure service should continue to provide the current levels of provision.
- 6.10 Additionally, the indoor sports facility strategy looks to future population growth and makes recommendations with regards to sports facility capacity development in the next decade. Whilst the Council should be mindful of recommendations for future provision, this does not form part of the management options project.

Commissioning Model: Delivery Options Phase

- 6.11 There are a number of different delivery options available for the Council to consider in relation to the management of the leisure service. Research conducted by Sport England in 2015 suggests that currently 35% of local authorities in England operate leisure facilities in-house, with the remainder having either established a new operating vehicle or contracted with an existing operator.

Market Interest

- 6.12 Whilst several options are available, it is necessary to gauge whether the market would have an interest in what Fenland's leisure service has to offer ensuring that all options are open to the Council. Informal market testing has taken place with several key national leisure providers, with indications being that they would all be interested in the opportunity to manage Fenland's leisure facilities.
- 6.13 Informal discussions have also taken place with independent leisure providers to understand their experience and the suitability of such a model for Fenland.

7 Management options available to Fenland's leisure service

In-House Management

- 7.2 The CSR process has concluded that the Council wishes to maintain current leisure provision, but consider the management of facilities in a different manner in order to lever in efficiencies that the current approach cannot access. Whilst in-house management does not offer the tax advantages of the other potential management options highlighted below, further commercialisation of the service may still be possible to reduce the net cost of running the service.

Outsourced Management

- 7.3 If the Council was to outsource the management of the service through a procurement process, there are likely to be two types of bidders:

- private sector management organisations
- existing charitable organisations (trusts)

7.4 These two types of organisations have different structures, characteristics and advantages and disadvantages, however they are likely to be directly competing for the right to deliver the service should the Council choose to outsource to an external organisation through a procurement process.

Option 3: Establishing a New Local Trust

7.5 The third option available to the Council is to establish a new organisation to run the facilities and services. There are a number of ways that this could be established - it is worth noting that these different types of organisational structure are usually know as social enterprises or trusts.

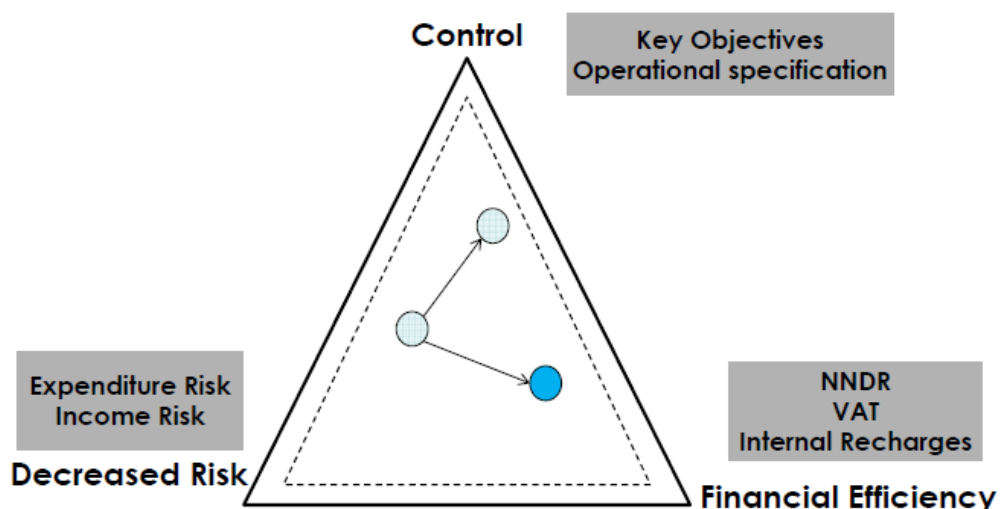
Advantages and Disadvantages of the options available

7.6 Whilst financial efficiency is a key driver for the Council, each of the options available to the Council, including keeping the service in-house, offer several advantages and disadvantages. These will be highlighted in more detail in the outline business case report to Cabinet.

Control, risk and financial efficiency

7.7 Each option determines a differing weight to each of control / risk / financial efficiency. In deciding which option suits Fenland, assessing where the Council sits within this triangle should help inform the most suitable management option. Clearly quality of service is important to the Council - this needs to be balanced against financial efficiency.

7.8 The final cost of any model for future service delivery will be as a result of three main factors; the level of service provision the Council specifies for Leisure, the degree of income and expenditure risk it wishes to pass on to any third party operator and the financial efficiency of the management model. This is illustrated in the diagram below:.



8 Comparison of Options – Headline Advantages and Disadvantages

- 8.1 In order to develop an overview for the relative merits for the different management options, it is useful to frame the key features of each option against an evaluation framework.
- 8.2 The table below, adapted from Sport England's procurement guidance, provides an indicative assessment of the relative advantages and disadvantages of each option, based on a 1 to 5 rating system, with a higher score being more attractive to the Council.
- 8.3 Each key feature has been weighted following CSR feedback and the emphasis on reducing revenue costs, whilst keeping the service provision substantively at current levels. Combining the weighting with the rating for each key feature gives a total assessment score for each potential option. It is intended to use this methodology as part of the outline business case preparation.

Key Feature	Suggested FDC Weighting of each feature
Potential for revenue savings	5
Retention of strategic control	2
Protection from future LA budget cuts	4
Potential to increase participation	4
Retention of operational control	1
Operational risk transfer	4
Asset risk transfer	3
Access to capital funding	2
Access to external funding	2
Access to economies of scale	3
Set-up costs and lead-in time	4
Potential to deliver cross-departmental strategic outcomes	2
Potential for community & staff involvement	3
Potential for enhancement to service	2
Protection of staff – Roles & T&Cs	3
Total Score	

9 Gateway questions

- 9.1 In addition to the use of the option comparison matrix described above, It is also intended to consider a number of key gateway questions that will be addressed as part of the Phase 1 Cabinet report, before any decision is made to move to Phase 2.

1.	Has the Council gathered data on the current baseline position of its service, facilities and local population e.g. participation, throughput, customer satisfaction, financial performance?
2.	Does the Council understand the contribution that sport, leisure and physical activity is currently making in the local area?
3.	Has the Council identified its position on a decision triangle in order to define its decision criteria?
4.	Has the Council analysed the local population to understand what they need from a leisure facility perspective?
6.	Has the Council considered and agreed the outcomes the service is seeking to achieve?
7.	Has the Council used the available Sport England tools to identify what is needed from a facilities perspective and where?
8.	Does the Council have an accurate understanding of the current condition of its facilities and future liabilities?
9.	Does the Council understand the current baseline financial and participation performance of its leisure facilities?
10.	If planning to partner with an external organisation, has soft market testing been used to test key issues and ensure sufficient market interest exists?

10 Looking forward: Leisure Management Options Project Phase II - Building a comprehensive business case

Commission cycle; Delivery Option

(November 2016 - February 2017 provisional timetable);

- 10.2 This phase of the project will consist of working with an industry expert to build a comprehensive business case for Cabinet and Council to consider regarding the management option selected by Cabinet in Phase I.

Key aspects of work in this phase will include:

Revising Fenland's Leisure Strategy

- 10.3 The Council's current leisure strategy was developed in 2012/13 and was expected to run for five years. Given the renewed pressures on local government finances and the Council's internal CSR process, a revision to the strategy is necessary. Any revised strategy will inform priorities for the service going forwards and feed into the business case development and any specification for the future management of the leisure service.

Early Market Engagement

- 10.4 If appropriate, the Council will carry out an early market engagement day with potential interested management parties. This session will allow an exchange of knowledge between potential management parties and the Council, ensuring that the potential of the service can be related in the business case and the accompanying financial information.
- 10.5 This aspect of the project will also give the Council more certainty that potential management parties are interested in working with the Council, should any future procurement proceed.

Developing a business case

- 10.6 A supporting industry expert will work together with officers to develop a comprehensive business case for the option selected by Members in Phase I.
- 10.7 This work will include comprehensive financial modelling using industry data, specific Fenland population data and a granular examination of the current financial performance of Fenland's leisure service. This work will give a firmer indication with regards to expected financial results of the option under consideration.