

FUTURE MANAGEMENT OPTIONS FOR LEISURE SERVICES

Submitted by: Executive Director – Operational Services

Portfolio: Culture and Active Communities

Ward(s) affected: All

Purpose of the Report

To update Cabinet on the work of the Leisure Trust Steering Group.

Recommendations

(a) To note the work of the Leisure Trust Steering Group and, in view of the uncertain business case and financial implications, agree not to progress at this point in time establishing a Trust to operate all or part of the Council's Leisure and Cultural Services.

(b) To receive a further report once the financial implications of the business case are clearer.

Reasons

In-house operation is the most tax efficient for the Council for this financial year.

Further clarification surrounding pending changes to the local government pension scheme means that the outline business case cannot be sufficiently developed to effectively inform the Council's financial strategy.

1. Background

- 1.1 On 17 February 2010 Cabinet approved that a Task and Finish Group should be established chaired by the Portfolio Holder for Culture and Active Communities to consider the implications and options for the establishment of a Trust to manage all or part of the Council's leisure and cultural services. These arrangements have the potential to save the Council a reasonable sum each year by avoiding national non-domestic rates (NNDR) and certain VAT liabilities, as well as developing leisure and cultural activities across the Borough.
- 1.2 This group has now concluded the first stage in this review. One of the main outcomes of the review has been the completion of an options appraisal. This has been subject to internal and external challenge and been informed by specialist legal, pensions and VAT advice. This totals £10,785 and was met from the professional fees for the Jubilee 2 project.

2. Issues

- 2.1 Leisure & Cultural Services is responsible for the following functions which could form part of a trust:
 - Jubilee 2
 - Kidsgrove Sports Centres
 - Sports and Events
 - Football Development (Including Roe Lane Playing fields)

- Westlands Sports Ground
- Museum and Art Gallery
- Arts Development
- Community Centres

- 2.2 Leisure and Cultural Services has recently restructured into three business units: Culture and Arts; Leisure Strategy; and Sport and Active Lifestyles. The staffing structure for Sport and Active Lifestyles has been specifically implemented to improve operational performance and achieve the business plan for Jubilee 2, with business development support coming from Leisure Strategy. Consequently since the establishment of the Task and Finish Group there is renewed confidence in the in-house operation. In addition the refocused structure has created the time and space for strategic plans to be developed that will continue to address the future leisure and cultural facility needs of the Borough, building on the £10m investment in Jubilee 2.
- 2.3 Whilst at this stage there appear to be clear financial advantages in moving to a Trust in terms of NNDR and VAT savings the process itself is technically complex and open to third party challenge as the process is subject to EU procurement rules.
- 2.4 One of the more complex issues relates to the actuarial strain placed on the Council's employers contributions to the Local Government Pensions Scheme (LGPS) as a result of the transference of a sizeable proportion of its workforce, even if the Trust is successful in gaining "admitted body" status. Put simply, if the size and demographic structure of the Council's workforce changes as a result of a transfer and this has a detrimental effect on the LGPS, the Council will be required to compensate the scheme. The latter has the potential to significantly counteract the potential savings referred to above. With the current uncertainty around pension reform, further clarification is being sought by the County Council's Pensions Team which challenges the advice and therefore the costs that we have been given to date.
- 2.5 In addition, the completed options appraisal is unable to recommend a clear course of action without further work being commissioned in the form of a soft market test. The soft market testing exercise is for the purpose of gathering expressions of interest and ideas for the management contract(s). It will take time to organise that could detract the service from preparations to commission and open Jubilee 2. Clearly it will be vitally important to achieve an efficient transition from the existing two centres to the operation of the new Jubilee 2 centre, particularly in view of the relatively ambitious business plan.
- 2.6 Of course any soft market testing would require resourcing (with an estimated budget of £10,000) so that specialist advice can be sought where deemed necessary. It is also anticipated that it will be well subscribed given the likely interest of the market in Jubilee 2. If undertaken, whilst it would not be our intention for this to constitute a procurement process, organisations could challenge us on this, particularly if they felt they had committed significant resources to the exercise. There is a risk therefore that we could be forced into a position of having to undertake a full procurement exercise before Members have the opportunity to fully consider all the implications.

3. **Options Considered**

- 3.1 An options appraisal has now been completed and full consideration has been given to the following Management Options:
- Remain in-house
 - Establish a new Local Trust

- Establish a Hybrid Trust with a private sector operator.
- Establish a new Trust with a neighbouring authority
- Partner with an existing Trust

3.2 Each of the above management vehicles were scored against a set criteria of:

- Reducing revenues costs and maximising capital
- Staffing implications
- Retaining Influence over the service
- Improvements for service users
- Increased participation and social marketing

3.3 A brief summary of the benefits and disadvantages are summarised in the following table:

Potential advantages/ disadvantages	NNDR and Tax Savings	Increased access to capital	Savings in central charges	Increased Management Capacity	Set-up costs	Transfer of risk	Community involvement
New Trust	Yes	Limited	Some	No	High	Some	Yes
In-house	No	No	No	No	None	No	Limited
Hybrid Trust	Yes	Yes	Yes	Yes	Medium	Yes	Some
New Cross Boundary Trust	Yes	Limited	Some	Some	High	Some	Yes
Existing Trust	Yes	Some	Yes	Yes	Medium	Yes	Yes

3.4 Whilst all trust options offer reduced revenue costs (achieved through NNDR and VAT savings) and the potential to access external capital grants is more likely to apply to any Trust arrangement, the analysis does not conclusively identify any single option as being more favourable than the others.

4. **Proposal**

4.1 It is proposed that the work of the Task and Finish Group be noted and the work programme be suspended to enable the service to concentrate on the commissioning and opening of Jubilee 2 and/or until such time as more accurate information is available in relation to the LGPS and Members may wish to re-examine the issue in the context of the Council's medium term financial strategy. Additionally members may find it helpful to assess the position with the benefit of a full year's operating accounts of the Jubilee 2 Centre.

5. **Reasons for Preferred Solution**

5.1 As detailed in paragraph 4.1 above.

6. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

6.1 The services are of a cross cutting nature but particularly contribute to corporate success through their impact on health and wellbeing.

7. **Legal and Statutory Implications**

7.1 There are no legal or statutory implications arising from this report.

8. **Equality Impact Assessment**

8.1 The services have developed a good reputation in reflecting the diversity of the community in

its users.

9. **Financial and Resource Implications**

- 9.1 It is expected that the operation of Jubilee 2 will achieve a revenue budget efficiency of £350k in the first full financial year (following closure of the two existing centres). Additionally the previously-prepared Business Plan for the Centre anticipates year-on-year growth over the first five years thereby further reducing the Council's operating subsidy. Whilst officers are reviewing and refreshing the Business Plan to ensure that it remains realistic it is vitally important that the initial savings are delivered in 2012/13 as forecast in the approved MTFS.
- 9.2 As indicated above the establishment of a Leisure Trust – to operate the services referred to above – has the potential to achieve significant cashable savings (could be as much as a net £100k, taking account of set-up costs). At face value this may be considered attractive, particularly in light of the Council's MTFS. However there remains considerable uncertainty about the LGPS issues (see below).
- 9.3 Meetings with the County Council pensions section initially identified an additional cost of about £65k in increased employers contributions if all Leisure and Cultural Services staff were to transfer to the Trust. Since this figure was calculated there have been two further developments that are likely to have an effect on this figure. Firstly there have been changes in staffing within the service and secondly the County Council's Pensions Section has challenged and is seeking to clarify the principles on which the Actuaries calculated the figure. Whilst the change in relation to staffing is likely to reduce the costs the County Council advise that the latter would be likely to increase the costs, but are unable at this stage to quantify it.

10. **Major Risks**

- 10.1 A Risk Assessment has been undertaken for this project by the working group. The Risk Log is available for inspection.

11. **Sustainability and Climate Change Implications**

None

12. **Key Decision Information**

- 12.1 The proposal does not involve significant expenditure or savings at this stage. It does however impact on all Wards and is included in the Forward Plan.

13. **Earlier Cabinet/Committee Resolutions**

17 February 2010

14. **List of Appendices**

None

15. **Background Papers**

Options Appraisal

Scoring Matrix

Risk Log

Agendas, minutes and papers from the Leisure Trust Steering Group.