
LEISURE CENTRE MANAGEMENT – ALTERNATIVE DELIVERY MODEL

Appendix B to this report is confidential and not for publication by virtue of paragraph 14 of Part 4, and paragraph 21 of Part 5 of Schedule 12A, Local Government Act 1972 (as amended). It is viewed that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Purpose of the Report and Scope of Scrutiny

1. To provide Members of the Economy and Culture Scrutiny Committee with the opportunity to scrutinise the proposals coming forward from the Leisure Centre Management Procurement Exercise, prior to these being presented to Cabinet for approval on the 27 July 2016. In particular the scrutiny should focus on:
 - The options appraisals outlined within the Leisure Centre Management Full Business Case, evaluating private sector partnership options against an Enhanced In-House Model;
 - The rationale behind the recommended preferred option – to establish a partnership with a private sector organisation.
2. At the Committee meeting Members will also have the opportunity to explore next steps and future actions that the Council will need to take to deliver the preferred option. Members may also wish to consider how the Committee will be able to scrutinise this topic in the future.

Background

3. A report was taken to Cabinet on 15 May 2014 entitled 'Establishing a Programme of Organisational Change for the City of Cardiff Council'.¹ This report set out the Cabinet's view that the Council needed to challenge the way in which services were currently being delivered and that a full range of service delivery models and providers should be considered.
4. In line with this approach, the Council commissioned a report from Max Associates entitled 'Sport, Leisure and Art Services Management Options Appraisal'. This report was also taken to Cabinet on 15 May 2014.² The report examined three possible options for the future delivery of leisure centre services. These were:
 - i. Continuation of in-house operated services.
 - ii. The establishment of a local trust or trusts to operate leisure centres.
 - iii. Contracting with a private sector partner to operate leisure centres according to a defined specification.
5. The conclusion of the Max Associates report was that the formation of a partnership with an external organisation scored highest in terms of the evaluation model used. At Cabinet on 15 May 2014 it was resolved that "*procurement processes be carried out for the future management of the Council's leisure centres and arts venues*". It was also stated within the associated Cabinet report that the Council's in-house provision would be used as a comparator to the services offered by bidders.
6. During this time, the Economy and Culture Scrutiny Committee undertook a Task and Finish Inquiry to consider the Max Associates report and the options available to the Council. The following key findings were made:

¹ Available via the following link: <http://goo.gl/Tl76wE>

² Available via the following link: <http://goo.gl/0z5i9B>

- *“On the basis of evidence received from officers, an understanding of the Council’s budgetary situation and by observing external economic trends, it seems clear that continuing to aim to deliver and manage in-house leisure and cultural services in an environment where there may be no central revenue provision whatsoever from the Council within five years is likely to be an unsustainable position to take. While excellent work has been undertaken by staff to reduce overheads and maximise income (thereby reducing subsidy levels to a degree), the time has come to take the “quantum leap” forward that can be achieved by the tax advantages available through National Non Domestic Rates (NNDR) and VAT possible through working through a trust. Consequently, alternative management options need to be progressed as a matter of urgency.*
- *“In principle, an arrangement with a third party whose aims were based around social and community benefits and reinvestment of surpluses into positive social aims would be preferable to working with a third party whose business model was predicated on distributing surpluses to commercial shareholders.*
- *“Regardless, however, of whether the Council chose to work with a commercially or a community motivated third party, the Cabinet has the potential to clearly articulate and specify the kinds of benefit it wishes to deliver into a management agreement, and the clearer the Cabinet can be about its wants and needs the better the outcomes will be for our citizens.*
- *“A suggestion to achieve this is that – rather than seeking to specify financial benefit as the exclusive priority and to seek the most financially advantageous arrangement – the Cabinet conducts mature and challenging discussions between Portfolio leads and with the Chief Executive and Section 151 Officer to understand what minimum level of financial savings through an alternative management model would be deemed necessary to support the Council’s medium term financial position. Once clear assumptions about that financial quantum and its associated risks could be agreed, Cabinet will be able to*

approach the market with confidence, knowing that any additional sums likely to result from partnership with a third party can be ring-fenced into the future wellbeing of the city's leisure and cultural assets.

- *“As awareness emerges of the likely “comfort zone” to be derived between the minimum level of savings required and the level of investment potentially available from the market, further discussions can be held prior to detailed contract specifications being consolidated to determine options on how that quantum will be divided between social benefits, asset maintenance, customer service and other desired outcomes. However, in the short term continued effort should be invested to begin modelling these options, so that the Council is able to be agile in making effective and appropriate decisions in the challenging timescale identified that is required to make targeted savings for the 2014/15 financial year.*
- *“Committee is aware of the Cabinet Member’s inherent philosophical preference for Council services to be delivered in-house. He was, however, clear in communicating that this personal view would not cloud or determine his judgement as the procurement exercise moved forward. Members encourage the Cabinet Member to secure the best possible outcome for the citizens of Cardiff, skillfully balancing a range of equally important priorities”.*

The full Task and Finish report of the Committee can be found attached at **Appendix A.**

Relevant issues from 2015/16 Council Budget

7. The Council's 2015/16 budget, approved at Council on 26 February 2015 included the following saving:

New Operating Model for Leisure Centres - the Council has agreed to progress with a procurement process to determine a new operating model for

its leisure centres which will be tested against the current in-house provision. Saving expected to be generated for the final quarter of 2015/16. The level of saving is dependent on the procurement process that is being run in respect of leisure centre management throughout the first half of 2015/16. At this stage the level of savings to be achieved can only be estimated until the outcome of the procurement process in Autumn 2015.

The level of savings identified for the 2015/16 budget through this project was £435,000

8. The achievement of savings is monitored by Scrutiny Committees through the scrutiny of Quarterly Performance Reports. In considering the 2015/16 Q4 Performance for the Sport Leisure and Culture Directorate, Members of the Economy & Culture Scrutiny Committee were informed of the challenges that had been encountered in achieving the proposed savings. Members wrote to the Cabinet Member: Community Development, Co-operatives & Social Enterprise to say:

“The Committee note that the achievement of savings from the Leisure Centres and Arts Venues procurement exercises within the 2014/15 budget was always going to be challenging. We are mindful that procurement exercises of this scale and value will always be subject to long timescales, and welcome the assurance given that the procurement is progressing as planned and that suitable interest has been shown from the market. We note that the unachieved savings will be carried forward to 2015/16, which will bring with it additional pressures and risks, but it is clear to us that you, and officers are well aware of the need to deliver these savings.”

9. The 2016/17 budget, approved at Council on 18 February 2016, included the following savings proposal:

Alternative delivery for Leisure - a new operating model in Leisure.

The level of savings identified for the 2016/17 budget through this project was £850,000.

Business Case

10. Following this procurement exercise, a Business Case has been developed to determine the delivery model for leisure centre services in Cardiff that enables the Council to address the challenges it faces. This can be found attached at **Appendix B**. This document has been judged to fall within the category of information judged to be “exempt from publication” under the provisions of the Local Government Act 1972.

11. Members will note that at the outset of the procurement exercise, four separate “lots” were created, with a view that the inclusion of single facility lots will provide the opportunity for smaller operators/organisations to participate in the procurement exercise. This was explained to Members of this Committee in a Task and Finish Inquiry meeting on 19 November 2014 (the letter written following this meeting can be found attached at **Appendix C**). The final business case however indicates that only one lot remains within scope of the procurement exercise.

12. Given below are the initially identified Lots and their current status:

LOT 1 (including LOT 2) – **IN SCOPE**
 - Llanishen Leisure Centre
 - Eastern Leisure Centre
 - Fairwater Leisure Centre
 - Western Leisure Centre
 - Pentwyn Leisure Centre
 - Maindy Leisure Centre
 - STAR Centre (Splott), the current Star Centre will close when the new Star Hub opens in the Autumn of 2016

- Penylan Library and Community Centre (LOT 2)

LOT 3 – **NOT IN SCOPE**

- Channel View Leisure Centre

LOT 4 – **NOT IN SCOPE**

- Cardiff International Sports Stadium (transferred to Cardiff & Vale College)³

13. The Business Case sets out that in terms of finances, the objective of any future delivery model for leisure services must include the elimination or at least significant reduction in the subsidy paid to leisure services. Currently the total net paid to leisure services is approximately £3.268m (2015/16 outturn).

14. Members are advised to refer to **Appendix B** – Leisure Services Alternative Delivery Models Business Case (which is exempt from publication). This document contains the following information which Members may wish to consider:

- The Strategic Case for the procurement exercise.
- The Economic Case – including the Options Appraisals undertaken for the Enhanced In-House delivery model and Private Sector Partner options. This identifies a preferred option for provision of Leisure Services in Cardiff.
- The Financial Case for the preferred option.
- The Commercial Case for the preferred option.
- The Management Case for the preferred option.

15. **Appendix B** identifies that the preferred option for leisure centre services in Cardiff is to establish a partnership with a private sector organisation. Following a process of competitive dialogue and evaluation of the bids received, the preferred bidder that offered the Most Economically Advantageous Tender was identified as Greenwich Leisure Limited (GLL).

³ Considered by Economy and Culture Scrutiny Committee in April 2015 - <http://goo.gl/LGtZxu>

16. The following advantages are identified from this preferred option:

- GLL will provide the greatest financial savings over the life of the contract.
- The preferred option provides surety of future financial costs of leisure services and significantly reduced financial risk for the Council.
- Financial risks in relation to utilities, delivery of investment opportunities, achievement of income targets and maintenance of facilities (with the exception of structure and roofs) will be borne by the contractor.
- Awarding the contract would give greater future certainty to the delivery of the specified services within a contractual framework, protecting the ongoing operation of each facility and maintaining jobs.
- The contractor has proposed a robust investment plan for capital investment into facilities.
- The contractor has extensive Local Government experience within their senior management team, a proven track record of operating leisure facilities, a robust governance structure and a commitment to partnership working.
- The contractor will be committed to the achievement of QUEST, the leisure industry quality standard across the portfolio which will improve the quality of facilities and services.

Previous Scrutiny

17. As mentioned in paragraph 6 above, the Economy and Culture Scrutiny Committee undertook the first phase of the 'Alternative Operating Models in Leisure and Cultural Venues' Inquiry was undertaken in early 2014. The Inquiry Members received evidence from former Cabinet Portfolio Member Councillor

Ramesh Patel and senior Sport, Leisure and Culture Directorate officers, the Director of Legal Services, Welsh Local Government Association advisors and other stakeholders. A visit to Bridgend enabled Members to meet responsible Council Members and officers, and to meet Halo Leisure Trust, a social enterprise established to manage leisure facilities on behalf of local authorities (including Bridgend Council), with the purpose of reinvesting any surpluses generated back into those authorities' leisure network.

18. A meeting was also held with Parkwood, a business which (amongst other contracts across the UK) manages leisure facilities in the Vale of Glamorgan on behalf of the Vale of Glamorgan Council, and the Cardiff International Pool. Parkwood have also recently developed a niche in the management and operation of arts venues in England.
19. In April 2014 the newly appointed Council Leader Councillor Phil Bale asked the Scrutiny Inquiry Team if they would be minded as part of the Inquiry to contribute ideas to a report being prepared into the matter for Cabinet's 15 May 2014 meeting. While this did not form part of the Inquiry's original terms of reference, given the growing urgency of seeking solutions in this area the Committee Chair and Inquiry Team Members agreed to consider this proposal.
20. The Inquiry Team provided some written thoughts for Committee Members to consider at their meeting on 8 May, as part of the pre-decision process. These were then tailored into a Scrutiny Report as part of a Cabinet paper seeking agreement for a process of procurement which Cabinet considered at their meeting on 15 May 2014. This report is attached as **Appendix A** and the key points made are listed in paragraph 6 above.
21. The second phase of the 'Alternative Operating Models in Leisure and Cultural Venues' Inquiry was undertaken in November 2014. Members' were updated on the procurement process and their views were sought by the Director – Sport, Leisure and Culture on the evaluation principles that were being written into the specifications of any contract award.

22. At this meeting, Members were informed that the procurement process for Arts and Cultural Venues was proceeding more slowly than that for Leisure Facilities. The decision was made to push ahead with the Leisure Facilities procurement rather than delay in order to allow them to run in tandem.

23. Members wrote to the Cabinet Member – Community Development, Co-operatives & Social Enterprise (**attached at Appendix C**), to raise the following points:

- *“Members welcome the aspiration to achieve a net zero subsidy, but would not insist that this result is achieved if suitably attractive bids are received that do not provide a net zero subsidy position for the Council.*
- *“Members welcomed the focus being placed on the achievement of desired outcomes when evaluating the bids received, rather than the Council being overly prescriptive with the specifications that bidders must satisfy. Members felt this approach will enable innovation from the market and allow bidders to outline new opportunities and options for service delivery.*
- *“Members welcome the Lot allocation, with three single facility Lots providing the opportunity for smaller operators/organisations to participate in the procurement, which would not been possible had the Council gone with fewer, larger Lots, while at the same time retaining a more substantial Lot that will be attractive to larger organisations.*
- *“Members are pleased in-house service provision is being used as a benchmark throughout the process, and welcome the fact that the Council’s provision of services is still being driven to reduce costs and improve quality of service. Members were keen to stress that they would welcome the retention of the service if the Council’s service provision is found to compete with the options provided by the wider market.*
- *“Members expect social objectives, such as such as the payment of the Living Wage to staff, reduced charges for Children who are Looked After and*

increased access for disadvantaged customers, to be considered and explored with bidders as the procurement process progresses.

- *“Members reiterated a point made in May 2014 - that working with a partner organisation driven by social goals (such as a trust, charity or social enterprise) would be the Committee’s preferred option. They felt that this approach would provide a natural role for Elected Members and the Local Authority to contribute to the running of facilities, and feel these organisations would better address the social elements of the services provided in Leisure and Cultural facilities”.*

24. In February 2015, Members of the Inquiry were sent the Leisure Service Requirement specifications in advance of them being distributed to bidders in readiness for the competitive dialogue process. Members were content with all that was contained within this document and did not request any amendments be made.

25. In September 2015 Members were provided with an update of the Leisure Services ADM Update as part of the Committee’s consideration of 2015/16 Quarter 1 Performance. This included an update on key milestones achieved and the future timeline for the project. This can be found via the following link: <http://goo.gl/oS9v5y>.

26. Following this item Members wrote to the Cabinet Member: Community Development, Co-operatives & Social Enterprise to raise the following points:

- Members of the Committee were concerned with the fact that only two interested parties have made it to the invitation to submit final tender (ISFT) stage of the exercise, and questioned whether the Council has asked too much of the market, setting its targets too high and being overly ambitious.
- Members of the Committee were particularly conscious that the process followed to develop an enhanced in-house model, to be compared against

final submissions from the market, will be of great interest to bidders involved throughout the procurement process and is likely to be subject to considerable external scrutiny. If following almost two years of work on the procurement process, the Council decides to choose an enhanced in-house solution, the processes followed will need to be beyond reproach, particularly given the significant resources that will have been invested in the process by external companies.

- The Committee was aware that the clear driver behind this project is the need to deliver substantial savings, and to arrive at a position of nil cost to the Council from the provision of leisure services - savings which will need to be found whether an internal or external solution is agreed. If indeed the best way to achieve this is through an enhanced in-house offer, the Committee would support this course of action.

Wales Audit Office

27. On 22 March 2016, Cardiff Council's Audit Committee received the Wales Audit Office Report 'Delivering with Less : Leisure Services'. The Audit Committee felt it was important to bring this report to the attention of the Economy and Culture Scrutiny Committee. The letter written by the Chair of the Audit Committee is attached as **Appendix D1**, the Audit Committee report is attached as **Appendix D2** and the Welsh Audit Office Report is attached as **Appendix D3**.

28. The recommendations made within the Wales Audit Office report in relation to the delivery of Leisure Services, are as follows:

R1 - Improve strategic planning in leisure services by:

- setting an agreed council vision for leisure services;
- agreeing priorities for leisure services;
- focussing on the council's position within the wider community sport and leisure provision within the area; and
- considering the potential to deliver services on a regional basis.

R2 - Undertake an options appraisal to identify the most appropriate delivery model based on the council's agreed vision and priorities for leisure services which considers:

- the availability of capital and revenue financing in the next three-to five years;
- options to improve the commercial focus of leisure services;
- opportunities to improve income generation and reduce council 'subsidy';
- a cost-benefit analysis of all the options available to deliver leisure services in the future;
- the contribution of leisure services to the council's wider public health role;
- better engagement with the public to ensure the views and needs of users and potential users are clearly identified;
- the impact of different options on groups with protected characteristics under the public sector equality duty; and
- the sustainability of service provision in the future.

R3 - Ensure effective management of performance of leisure services by establishing a suite of measures to allow officers, members and citizens to judge inputs, outputs and impact. This should cover council-wide and facility specific performance and include:

- capital and revenue expenditure;
- income;
- council 'subsidy';
- quality of facilities and the service provided;
- customer satisfaction;
- success of 'new commercial' initiatives;
- usage data – numbers using services/facilities, time of usage, etc; and
- impact of leisure in addressing public health priorities.

R4 - Improve governance, accountability and corporate leadership on leisure services by:

- regularly reporting performance to scrutiny committee(s);

- providing elected members with comprehensive information to facilitate robust decision-making;
- benchmarking and comparing performance with others; and
- using the findings of internal and external audit/inspection reviews to identify opportunities to improve services.

Way Forward

29. Councillor Peter Bradbury (Cabinet Member; Community Development, Co-operatives & Social Enterprise) has been invited to take part in the meeting. At the meeting Members will have the opportunity to question the Cabinet Member and supporting officers on the proposals. Members will also have the opportunity to consider the views of trade union representatives, and ask them any questions which they feel will support the scrutiny.

Legal Implications

30. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

Financial Implications

31. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct financial implications at this stage in relation to any of the work programme. However, financial implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

RECOMMENDATION

The Committee is recommended to:

- i. Note the contents of the attached reports;
- ii. Consider whether it wishes to make any comments to the Cabinet to take into consideration when it considers this subject at its meeting on 27 July 2016.

David Marr

Interim Monitoring Officer

15 July 2016