

APPENDIX 1

scrutiny



ALTERNATIVE OPERATING MODELS IN LEISURE AND CULTURAL VENUES

SCRUTINY VIEWPOINTS FROM THE ECONOMY AND CULTURE SCRUTINY COMMITTEE

ON 8 QUESTIONS RAISED BY COUNCILLOR PETER BRADBURY

9 MAY 2014

1 Introduction

Economy and Culture Scrutiny Committee, Chaired by Councillor Craig Williams, is pleased to have been invited by the Council Leader and Cabinet Portfolio Member Councillor Peter Bradbury to contribute enhanced pre-decision scrutiny support to the draft Cabinet report being considered by Cabinet at their meeting on 15 May 2015.

In recent months three Members of this Committee (Councillors Chris Weaver [Inquiry Team Chair], Dilwar Ali and Nigel Howells) have been working to develop their Inquiry into Alternative Operating Models in Leisure and Cultural Venues.

The Inquiry's original terms of reference included extensive research and good practice visits, and also gleaning the views of the public. In so doing, the Committee planned to report to the Cabinet with the benefit of a wide basket of information to assist future service planning.

During the 2014/15 budget process, however, the scale of the immediate financial challenge facing the Council became clear, as did the need to generate savings in the immediate future. A target of £300,000, for instance, was set to be achieved by 31 March 2015 through savings generated via an alternative operating model for the New Theatre and / or St David's Hall. And while the Cabinet chose not to propose closure of any of the Council's leisure facilities during 2014/15, it has become clear that enduring financial constraint facing local government revenues for the foreseeable future would make it difficult to avoid uncomfortable choices in future budget rounds.

As a result the newly-appointed Council Leader Councillor Phil Bale asked, as part of his co-operative vision for the Council, if the Inquiry team could play a more dynamic and timely role in contributing their thoughts to a paper being tabled at Cabinet's 15 May meeting. The paper would consider – on the basis of recommendations from a report commissioned from Max Associates (a specialist advisor in the area of alternative management operation in the leisure sector) – proposals for the future management operation of the city's leisure and cultural facilities.

In a spirit of co-operation and wishing to be relevant to the urgent needs of the organisation, the Chair and Inquiry team consented to support the pre Decision scrutiny of this Cabinet report by holding two additional meetings of the task and finish group in late April and early May to consider their potential provision of a "Scrutiny Appendix" to the draft Cabinet Report. Committee also invited Councillor Peter Bradbury, along with Chris Hespe and colleagues to their Committee meeting on 8 May 2014 to provide formal pre-decision scrutiny of the draft Cabinet report. At this meeting Members agreed to compile the report below to represent Committee's feedback to eight key questions raised by Councillor Bradbury that connect closely with this agenda. These questions are:

- 1. Financial surety versus delivery of social objectives - where we might sit on a spectrum, and how much room for manoeuvre there might be.*
- 2. Financial surety versus quality of provision - how much of a "blue chip" operation the Council wishes to deliver / can afford to deliver.*

3. *How much control the Council would wish to exercise over the operations of a third party provider.*
4. *Capital resourcing requirement - whether the Council would prefer to provide capital investment itself to potentially secure a better revenue "deal", or whether it would prefer a provider to meet these capital costs.*
5. *How much community involvement the Council would wish to assure through the process - eg through social enterprise / trust.*
6. *How much risk the Council would prefer to transfer to an operator, and how much it would wish to retain for the Council to bear.*
7. *The level of protection the Council would wish to afford to existing staff through the process in the short and medium term.*
8. *Are any particular models of operation generally preferred by the Council?*

Given the unanticipated change in tack the Inquiry has taken, Members would like Cabinet colleagues to be aware of a number of constraints they feel should be placed on the advice they have been able to provide. These constraints are listed below, but it is hoped that notwithstanding these constraints the advice will be of benefit.

The information below provides Committee's general thoughts on how the Cabinet could best approach this agenda, and specific responses on the eight above questions.

2 Background

The Economy and Culture Scrutiny Committee's Inquiry came about following Committee's work programming forum in July 2013, when the newly appointed Director of Sport, Leisure and Culture Chris Hespe advised Committee that – given current and foreseeable challenges to Council funding – imaginative and innovative approaches to the future management of the Council's leisure and cultural venues would be critical to retaining the widest and best possible range of services for residents and visitors.

As well as providing an important role as “critical friend” and holding decision makers to public account, scrutiny has the opportunity to harness the talents, experience and enthusiasm of cross-party back bench Councillors in providing useful views on a range of current Council priorities. By identifying best practice through research and visits, and taking on board the views of informed stakeholders and the general public, Scrutiny Members can feed authoritative advice into the policy development process so that Cardiff Council can make the best possible decisions, ensure the best possible outcomes, and secure the best possible engagement.

In the process of conducting their Inquiry, Members have heard evidence from Cabinet Members, senior Council officers including legal specialists, experts at the WLGA and Sport Wales. 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 networks.

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.

3 Suggested Constraints to the Advice Provided Below

The Inquiry team and wider Committee Membership recognise five constraints to their current capacity to fully inform the Cabinet report:

- a) Given the complexity of these agendas and the level of expertise required, Committee would have liked to be able to receive further evidence and research data to fully form strategic and legally and financially robust key findings and recommendations;
- b) The speed with which this opportunity has arisen has offered limited time to appropriately evaluate the balance of financial savings and social benefits that might be deemed appropriate;
- c) The Committee had only benefited from sight of the draft Cabinet report or report from Max Associates a few days before its 8 May Committee meeting to inform its consideration;
- d) During this timescale the Inquiry team has only been able to meet or research a limited number of operating models and providers. Committee recognise that any procurement exercise must be conducted in a totally fair and transparent way that will deliver the best range of benefits to the Council, while giving each interested party a fair opportunity to bid for contracts. Any references to specific existing providers below implies no preference to any particular model or provider.
- e) The Committee recognises that for Scrutiny to continue to provide impartial and “critical friend” advice to the Cabinet on this matter it needs to retain its independence to enable it to be able to hold the Cabinet to account for the future decisions that it makes. Members were grateful to hear Councillor Bradbury clearly assert at their Committee meeting on 8 May how much he values that independence, and that this was a genuinely motivated desire to work collectively across the Council’s political spectrum to find answers to difficult questions with long-term significance facing the Council.

4 Committee's Overall Views On How Cabinet Can Best Approach This Agenda

Many of the eight questions posed revolve around making similar judgements about the balance that the Council should take between financial necessity/achievability on the one hand, and the delivery of positive social, environmental or economic outcomes on the other.

In the timescale available for Members to form judgements on these matters there has been inadequate time for the Members to acquire enough technical mastery of the subject area to reliably or authoritatively reach evidence-based key findings that will clearly advise the Cabinet.

For Members to be able to authoritatively judge these issues they would need to understand factors currently outside their knowledge, such as:

- The overall level of financial challenge facing the Council, and the kinds of judgements that the Cabinet are likely to form around their priorities for taking the Council forward in coming years;
- The level of ongoing financial challenge in the external environment that will impact on the revenue allocation reaching the Council through Welsh Government, Council Tax and income;
- An understanding of how much capital risk the Council's Section 151 Officer would advise was acceptable for the Council to bear.

An easy position for Scrutiny to take, therefore, would be the view that in an ideal world the Council would wish to maximise customer service, asset maintenance, social objectives and quality of provision, and to take on as much risk as it possibly could itself in the short term to maximise long term gains for the Council. It was felt that this would be an abdication of responsibility at a time when sustainable and achievable hard decisions need to be taken. It is clear that this is a far from "ideal world".

An alternative approach would be for the task and finish group to hedge its bets and caveat everything it said with a counter argument. The group felt that this would be of little benefit to the Cabinet, which is faced with taking important and difficult decisions where there is probably no empirically correct answer.

A third approach might be to seek to “race to the bottom” by prioritising profit and cost-reduction to the exclusion of all other benefits. It is clear that Cardiff’s highly popular and well-appointed fleet of leisure and cultural facilities provides a massive range of benefits to individuals, communities and the city and as whole. These in turn contribute to the delivery of a spectrum of Council priorities, from physical and mental health to quality of life, skilling and confidence building, economic vitality, social and community integration, civic promotion, inward investment, sustainability and many more. Members feel that prioritising short-term savings would come at a cost in delivery against these priorities.

The Group has chosen to avoid each of the three above approaches by accepting responsibility for a clear “in principle” preference. Our key findings are that:

- a) 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.
- b) 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.

- c) 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.
- d) 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.
- e) 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.
- f) 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, skilfully balancing a range of equally important priorities.

5 Specific Responses To The Eight Questions

a) Financial surety versus delivery of social objectives - where we might sit on a spectrum, and how much room for manoeuvre there might be.

As stated above, Members feel that overall planning should initially be undertaken within Cabinet around a minimum level of saving that is required from any revised management operations in leisure and culture. Once these financial assumptions have been built into the model, the Council should go to the market and assess what is potentially available. The differential between the minimum saving level required and the maximum level of income achievable through partnership with a third party will provide the quantum for further discussions around how this differential should be divided into the range of benefits prioritised by the Administration.

Although at first consideration social objectives might be seen to be more likely to be achieved through an organisation that does not have profit as its main objective, the task group has learnt that providers of differing operating models can deliver on social benefits – and even within the same model there are differences of outcome. Whichever model was chosen, careful specification, appropriate monitoring arrangements and active involvement are essential to optimise outcomes right through the contract period.

It is recognised that the Council is at a point of financial constraint, and must be realistic about its capacity to increase current levels of social inclusion through differential pricing. The MAX Card has been a successful and long term initiative to make leisure affordable to people on lower incomes, and a number of social inclusion projects have been developed over time to make facilities more relevant to disadvantaged communities. It is clear, however, that there is still expectation on the Sport, Leisure and Culture Directorate to further widen participation in healthy exercise.

Members need to be honest that there will be a cost to the delivery of social benefits. External providers will be used to working with differential pricing policies specified by local authorities, and the offer they can make the local authority will be shaped by the specification.

Careful and detailed risk assessments should, therefore, be undertaken to shape how to protect, enhance or reduce the current level of social provision being enabled through leisure centres, which currently host a wide range of lower priced access to neighbourhood learning, social services teams, exercise GP referral, youth services, neighbourhood partnership activities and much more being made through formal and informal arrangements. While a culture of internal trading has been established over many years, once management of facilities is formalised into contract specification with external providers this level of informal partnership and co-operation will be much more difficult to achieve – or it will come at a cost. Equally, assumptions that Councils might have made about them being able to use leisure centres as rest centres at times of emergency free of cost will be challenged in a new contract-driven environment.

Turning to the cultural arena, as Members heard at their Budget Scrutiny meeting on 10 February 2014 and which Councillor Bradbury actively contributed to as a Member of this Committee, two less visible aspects of the work of St David's Hall are the community and educational benefits stemming from its volunteer arts programme Arts Active, and the way it fosters creative talent and cultural entrepreneurialism through agencies like Arcomis. Following that meeting Members wrote to Councillor Patel to stress that these aspects need to be clearly protected when specifications are drawn up for any future operating model for the Hall.

b) Financial surety versus quality of provision - how much of a "blue chip" operation the Council wishes to deliver / can afford to deliver.

Committee has heard on numerous occasions over the past few years that key to the recent success of Cardiff leisure services in reducing its operating deficit has been its ability to offer the latest in leisure trends to its customers. Leisure is a highly competitive and trend-based industry, and customers with the most actively engaged leisure customers with the greatest spending power will be drawn to the latest product developments to maintain their levels of interest. Some of this revolves around investment in equipment (spin cycling being a recent example), which bears a cost. Even the aspects that revolve around imaginative programming of the latest exercise classes require a degree of investment in staff training, marketing and attracting the best instructors.

The Inquiry team does not have any evidence to suggest that there should be any intrinsic difference between the level of service and product generated from a private sector supplier or from a social enterprise. What was critical is that the Council clearly specifies the levels of product and customer service required into any specification, and plays a very active part in monitoring and partnering with any appointed contractor to ensure that these are met.

The Inquiry team has established, for instance, from their visit to Bridgend that on appointment as contractor to Bridgend Council Halo / Greenwich Leisure Limited had invested heavily into ensuring a high quality of provision. Parkwood Leisure also clearly articulated that for them to maximise income from any arrangement they need to ensure the highest possible levels of product development and customer service to retain loyal customers and ensure their competitive advantage. Members would be confident that contractors will have a vested interest in maintaining high levels of quality at our facilities, or they will lose revenue to the plethora of local private gyms now operating across Cardiff.

Turning to culture, and specifically to St David's Hall, it is recognised that there is a wider spectrum of programming possibilities, reflecting a wider range of financial return and risk. But it is essential that the Cabinet's planning is predicated as far as possible

around the need to preserve the long term integrity of the National Concert Hall of Wales as a centre for musical excellence that has helped take Cardiff's reputation to the highest international stage through the Cardiff Singer of the World and leading orchestral programmes. It is hard to overstate the measurable and less tangible contribution to the city's economic benefit in framing Cardiff's offer as a European quality of life city that future leaders would like to move to, and which is ripe for inward investment.

As stated below, to retain the prestige international quality of this programming, external partners like the Arts Council and Welsh Government should be encouraged to assist the Council as the local authority's revenues become more sparsely shared across numerous important portfolio priorities.

c) How much control would the Council wish to exercise over the operations of a third party provider?

The Inquiry team heard that contractors find active participation in the ongoing management arrangements by the local authority highly desirable, as they add capacity and ownership, increase promotion and are more likely to lead to wider participation by communities. The providers met by the Inquiry team have structured arrangements in place to govern the management of facilities, and in the case of Bridgend the Cabinet Member and Scrutiny Chair were both trustees of the local trust established to shape arrangements there.

Members need to understand, however, that there is a difference between strategic shaping and micro-management. WLGA advised the Inquiry that the Council would need to build a genuine partnership that works as well for the contractor as it does for the client, and inherent in this is a ceding of some control over areas previously entirely controlled by the local authority.

Essential to manage this is very careful early consideration of as many eventualities and occasions that might present risks to the relationship between the Council and a prospective contractor, and for these risks to be explicit up front in any contract specification to avoid nasty surprises once contracts were signed. Equally, as unexpected circumstances always arise in any relationship, a degree of comfort could be achieved by building in appropriate break clauses and review opportunities into contracts.

It is important to remember that an external partner is just as likely to have concerns about unexpected change during the term of a contract as might be held by the local authority. An illustration of the flexibility required by a contract was gained when the Inquiry Team visited Bridgend Council, and learnt that in the middle of the contract to run Bridgend Leisure Centre Halo were asked to consider an amended specification to allow for a library to be incorporated into the leisure centre, with the consequent risks to loss of income through reduction of available leisure activity space that this brought.

It is understood that a standard arrangement was for a contract period of 10-15 years, possibly longer in the arts arena. This was considered appropriate by Members, even

in the context of the Williams Commission Review and the potential for local government reorganisation in years to come. Officers reassured Members that it would be operationally expedient for two or more contracts with different providers to be effectively managed alongside each other, and that current operational arrangements in Cardiff and the Vale of Glamorgan need not shape the Council's procurement planning over the coming period.

Given the massive rate of change continually evolving in Cardiff, anticipated levels of population growth and in particular policy developments such as the Council's Community Hubs agenda, it is hard to imagine that our stock of buildings will remain unchanged over 10 to 15 years, and skill will need to be invested in developing sensitive and flexible contract specifications that take account of this.

Looking to the long-term horizon, one Member inquired as to what intelligence was available on what future shape of management usually ensued for facilities on the expiry of the first contract period. Underpinning this question was a fear that it might be more likely for facilities to be privatised on expiry of the first 10 to 15 year management period, than being brought back under local authority control. Members are clearly aware of their role in being stewards of the long-term wellbeing of the people of Cardiff. While it was not possible to provide this information to Committee as it was not perceived that adequate research had been undertaken nationwide, the Director of Sport, Leisure and Culture cited the experience of CCT (compulsory competitive tender) during the late 1980s as the main comparator. Some authorities were more inclined to support outsourcing of leisure facilities, while others (like Cardiff) made great efforts to ensure that in-house Direct Service Organisations were able to successfully compete for contracts. The experience of Cardiff is that facilities are now back under direct local government control, but that uncertain economic and political factors can have a major and unpredictable impact on these arrangements over time.

d) Capital resourcing requirement – where on a spectrum the Council should stand between preferring to invest in capital costs itself to potentially secure a better "deal", or whether it would prefer a provider to meet these capital costs.

Members understand that Cardiff already has a good “product” which has enjoyed significant investment levels over successive administrations. As such, it will be a more attractive proposition to a prospective management contractor than if facilities had not received this ongoing renewal. An obvious conclusion to this question, therefore, is that the Council will continue to benefit from strong capital investment in its stock of leisure and cultural buildings – which will remain the property of Cardiff Council for years to come, whatever future model of management operation is agreed.

The Inquiry had heard that prudent investment in asset renewal in recent years in Cardiff (notably at New Theatre, Western Leisure Centre, Maindy Pool and Penylan Community Centre, but generally across the city’s leisure and cultural estate) by the current and former administrations has placed Cardiff in an agile position to exploit as far as possible its range of well-appointed facilities as an attractive market proposition.

However, Committee understands that St David’s Hall and several of the city’s leisure centres are reaching a point where reasonably extensive asset renewal in infrastructure is required.

While some third parties will be prepared to make their own capital investment in infrastructure – there were some caveats to this, as follows:

- Some external providers will be prepared to take on a “full repairing lease” to assume all risk for asset maintenance, including roofs, drains and electrical / mechanical plant (especially for longer contract periods where the contractor will see a clearer benefit to making investment early in the contract period), but many will not.
- Even those that do will prefer to only assume this responsibility on newly built assets, rather than aging ones.

- Given its stability and size, the Council can generally borrow prudentially at better rates than third party investors. Commercial partners may provide short term cash injection through capital investment, but over the term of a contract the Council may lose out through management debt repayment charges.
- It would be unwise, however, for the Committee to assume that the Council will be willing to take on limitless capital borrowing, firstly as capital repayment costs might undermine the Council's revenue position and overall financial stability, and secondly as the Cabinet may have other quite appropriate views on other priorities for its limited capital borrowing capacity. It was felt that advice from the Section 151 Officer would be helpful, and that it is more a matter for Cabinet than for Scrutiny. Even within the Scrutiny sphere it is more the province of Policy Review and Performance Committee than for Economy and Culture Scrutiny Committee to deliberate.

As regards St David's Hall, It is clear from evidence provided that initial ideas around the feasibility of bolting on a new concert hall to any mooted International Convention Centre or Indoor Arena are not currently being prioritised, as they would add complexity and cost to what is already an ambitious venture. Commitment to the current city centre venue – challenged as it is by its age and current infrastructure – is still therefore essential.

Committee heard from the Cabinet Member and Director that – outside of any management arrangement with an external contractor - other bodies would be encouraged to assume their own share of responsibility for the renewal and regeneration of what is after all National Concert Hall for **Wales** rather than just for **Cardiff**. These might include the Arts Council of Wales and Welsh Government, but other national producing organisations associated with the Hall might also be approached to support its journey.

e) How much community involvement the Council would wish to assure through the process - eg through a social enterprise / trust.

Members noted from Chris Hespe's presentation at their 8 May meeting that an emerging "fourth priority" for potential bidders in any future procurement process was around the level to which the public could have a say in the future delivery of services. This seems to chime with the Leader's Co-operative vision for this Council, and reinforces evidence heard earlier from Parkwood Leisure that active customer participation was crucial to getting the offer right for local people, and therefore optimising participation rates.

It is clear that active participation by users can have huge benefits. Committee's work with Cardiff Riding School over the past year has helped Committee understand how useful an organisation like the Friends of Cardiff Riding School can be in providing access to external funding, as well as the sheer number of volunteer hours in the life and work of the School. Members can see that this active participation may be more easy to generate and sustain in smaller or more sport-specific leisure facilities such as Maindy Velodrome (where users and their parents may see that they can play a big part in supporting staff and can relate closely with the building and product) or in the cultural arena where "Friends' Groups" have traditionally been encouraged. It may be less relevant in the operation of the larger leisure venues, which are significant enterprises requiring complex and regulated processes to ensure safety and quality.

Members of the task and finish Inquiry have heard numerous cautionary tales, for instance from WLGA and wider afield, of authorities who have worked to set up their own arms-length community trusts which have failed and required "bailing out", possibly through inadequate initial capitalisation, or through a natural and understandable process of initially-enthused volunteers becoming "burnt out" over time. By contrast, community trusts like the Greenwich Leisure Trust backing Halo's operation in Bridgend and elsewhere is significant in its scale and capitalisation, and financially robust. While the concept of a locally established trust is a laudable one and should not be ruled out, Cardiff's own experiences with the Channel View and STAR Centre trusts should serve as a clear illustration of the potential risks involved, and all due diligence and careful financial modelling should be undertaken before venturing into this risky area again. Any decisions made by the Council must be hard-nosed and robust in the long-term,

and citizen involvement should be seen as an important by-product of a relationship with a third party, rather than its central motivation.

Members recognise that some efforts have already been made to engage citizen views on Council investment in cultural facilities through the 2014/15 budget consultation held in February. This Committee heard extensive evidence itself from Arcomis, the trustees of Sherman Cymru and of Cardiff Story Museum, and a long-term volunteer at St David's Hall on the risks to the Council of reducing its commitment to cultural provision.

The Committee also noted from Councillor Bradbury at its 8 May 2014 meeting that the forthcoming "Cardiff Debate" will feature a "Cultural Conversation" with leading Welsh and local arts organisations, and from Chris Hespe that focus groups will be held with current users of leisure facilities to gauge their views on the agenda of alternative management operation. Clearly the Committee wishes to support the widest and most inclusive conversations possible. It is recognised that many users will not have strong views on who actually manages the facilities, but any potential implications for their future enjoyment of our leisure facilities from these proposed changes should be clearly explained. It will also be important to focus attention on harnessing the views of current non-users so that the Council can continue to widen the appeal of its current leisure offer to individuals who do not currently use our facilities. In many ways, it is the opinions of these people who the Council most importantly needs to hear.

It was pleasing to hear at Committee on 8 May that – while procurement arrangements would need to develop apace to achieve savings target in the short term – there would be no cutting of corners in ensuring that arrangements were inclusive and professionally arranged. As the procurement process would be likely to involve "competitive dialogue", there is a degree of comfort that citizen feedback from the Cardiff Debate on these matters in coming weeks can still inform the procurement process.

f) How much risk the Council would prefer to transfer to an operator, and how much it would wish to retain for the Council to bear.

Members feel that they have extensively explored these issues in their answers to other questions, particularly in relation to capital expenditure and quality of programming, and there is no need to add to the length of this report by restating points made elsewhere.

As a general point, however, there is a cost to risk, and whichever party is asked to bear it in the short term, at the end of the day it is the Council that will be paying for this risk. In principle, therefore, the Committee felt that the Council should bear as much of the risk as it is able to feasibly and sustainably bear.

g) The level of protection the Council would wish to afford to existing staff through the process in the short and medium term.

The fundamental finding reached by the Inquiry team on this matter is a judgement that retaining in-house management and provision is no longer a sustainable option for the Council. It is likely to lead to the need to close facilities in future budget rounds, with the consequent loss of staff through redundancy. This is a deficit model the Committee wishes to avoid.

However, the Committee shares with the Cabinet Member his wish that staff are supported, protected and included in every way possible during a period that will naturally be unsettling, and when they will have concerns about the impact on them. Members were pleased to see in the presentation received at Committee on 8 May that one of three identified priorities for bidders would be “*ensuring the best deal for staff within strategic context*”, and to hear that Chris Hespe had held a productive meeting with trades union representatives earlier that day. Their involvement will be critical as an interface between management and staff.

Staff should assume that they would enjoy initial TUPE (Transfer of Undertakings [Protection of Employment] Regulations) during any transfer to a third party contractor, on their current pay and conditions. The Inquiry believes from what it has heard that under the operation of some contractors staff who subsequently move into new roles (for instance on promotion or taking on a subsequent new post within the organisation) then transfer onto the company’s own terms and conditions. It was suggested that the dynamics of these arrangements might vary from contractor to contractor, but Members would like to see further research undertaken to fully understand this complex area.

The Inquiry heard a variety of third party operating models asserting that they wish to ensure the very highest level of investment in staff training to guarantee optimal customer service and effective management (and consequent income). Parkwood, for instance has its own management graduate trainees and Staff Academy, training employees to varying levels of accreditation.

Committee is aware of the Cabinet’s commitment to the Living Wage, and the potential for commitments on the Living Wage to be specified to third party contractors through

which the Council procures its services. Committee would see this as an issue for the Council to consider as part of any procurement exercise connected with this agenda, and to carefully plan any financial commitments arising from any such priority it might wish to deliver.

Staff currently working within the actual facilities may feel most “in scope” to these changes, but less clear at present is how many central staff working in support services might be impacted by the drive to reduce central support costs. Committee cannot argue with current financial realities, and recognises that the organisation is ultimately accountable to the citizen for its most efficient use of management and back office resources. We feel, however, that it is important to properly account for the implications of this drive on employees in central services who may be currently less clear that they could be impacted in the future by any reduction in current demand for central support, and communicate with and involve them appropriately.

The Inquiry has not yet had time to research and advise on the feasibility of existing staff coming forward with proposals to establish a mutual. The Inquiry team and wider Committee would not wish, however, for a mutual of staff to be ruled out, and should a proposal be made, they would like the Director and Cabinet to agree to provide detailed information and support to staff preparing that proposal for consideration. Committee could potentially see this being more of a realistic proposition in the cultural arena than in the leisure arena, given the relative lack of local competition and the fact that the cultural offer is mainly provided through just two buildings.

h) Are any particular models of operation generally preferred by the Council?

The view taken by the Committee is formed specifically bearing in mind the current financial situation and the effect that is likely to have on the sustainability of in-house provision of leisure and cultural services.

Members of the Inquiry group had no objection to services in either area remaining in-house if that were financially feasible. They did not, however, feel there was evidence that this would be sustainable given current financial circumstances – or at least not without significant loss of services.

As stated towards the top of this report, provided that it did not have an unmanageably negative financial impact, in principle the Committee would see that working with a partner organisation driven by social goals (such as a trust or social enterprise) would complement the Council's working ethos and overall aims.

Members were also advised that working with an external non-profit distributing trust could also open up for the Council the potential for leveraging in sources of external finance that might be currently unavailable to the local authority.

Although this is seen as a "political" preference (with a small "p" as Members representing different political groups within the Council were able to coalesce around this preference) this report does not suggest that there is any particular inherent value or superiority in any particular kind of external model.

For instance, while Halo (which contracts for Bridgend Council) is a not-for profit organisation and social enterprise that invests surpluses back into the local operation, working with the substantial Greenwich Leisure Trust. Parkwood Leisure (as a private organisation which distributes profits to shareholders) also operates in partnership with the Legacy Trust, an established trust and charitable organisation which it is believed is equally able to take advantage of both NNDR and VAT benefits.

Members noted the advice of MAX Associates that two separate procurement packages should be drawn up – one for arts and one for leisure. Members also considered the Council's wider needs to generate savings in areas like social care and waste, and the

experience of some local authorities (for instance Norfolk and Cornwall) in establishing arms-length trading companies that adopted a much wider portfolio of services, and whether it might be more prudent and financially advantageous for the Council to bundle up its leisure and cultural provision – possibly even with other services currently delivered by the Council – into a larger single procurement bundle.

While recognising that the organisation is seeking to work as “One Council” and is currently dismantling a range of institutionalised silo working arrangements, Members feel that significant work still needs to be done in terms of long-term service planning before such economies of scale can be realised. There is a consequent risk of delaying the implementation of new operating models for specific services that are required now.

Members also understand that while there are some providers such as Parkwood who are able to manage both leisure and arts provision through separate management arms, there are many others who specialise in just one aspect of provision. Members considered that bundling arts and leisure into just ONE procurement package might unnecessarily limit the Council’s potential to receive attractive propositions from these specialists, and would support the intention of going out with two procurement packages.

Members also set this discussion into a historic local context. Decision makers in former administrations could for understandable reasons not have predicted that the recession and changing economic context would impact on local funding as it has during the past six years, and naturally chose to continue providing in-house managed leisure and cultural services. Had it been possible to look into the crystal ball at this time, there might have been value in exploring this agenda back then, and potentially developing the Council’s own in-house trust which could have bid for other public sector leisure contracts across South Wales to gain financial critical momentum and resilience. Sadly, most of those authorities have now progressed their own options for leisure, and the room for developing a successful in-house contracting organisation has been significantly curtailed.

In terms of planning for the future, Members noted with regret that there are no established strategies in place for the future planning of either leisure or culture in Cardiff, and urge that these are developed urgently, possibly in harness with the

proposed procurement programme and “Cardiff Debate” in coming months. The Council’s Local Development Plan posits significant levels of population growth in different parts of Cardiff up to 2026, and without such agreed and structured planning arrangements in place, it will be difficult for the Council to reach confident judgements on whether it feels it is currently over-provided or under-provided with leisure and cultural service both at a city-wide and at a neighbourhood level.

These judgements will be essential to ensure that equitable levels of provision are planned into future Council budgetary rounds and infrastructure development, and the ongoing arrangements for the management operation of leisure in Cardiff.

6 Conclusion

In conclusion, the Members of Cardiff Council's Economy and Culture Scrutiny Committee (Councillors Craig Williams, Dilwar Ali, Gareth Holden, Nigel Howells, Mohamed Javed, Georgina Phillips, Chris Weaver and Darren Williams) hope that the contents of this report will assist Cabinet in taking this important agenda forward.

We have been impressed with the energy with which the three Members of the Inquiry Team (plus our fourth original Member – Councillor Peter Bradbury prior to being invited to join the Cabinet) have invested in this Inquiry.

Committee would like to thank the Cabinet Members, officers and particularly the external witnesses and providers who volunteered their time to meet us, and the scrutiny staff who worked hard to make this report possible.

We will be pleased to continue to advise Cabinet within our capacity, and taking into account the constraints articulated above.

This process of contributing to the draft Cabinet Report has caused us to deviate from our Inquiry's original terms of reference, and we feel that we need to re-evaluate where best to take this work forward in consultation with the Cabinet Member and officers. In particular, we feel that there is work for us to do in helping shape (as appropriate) the contract specifications and risk planning. Critically, given our roles of representing the views and concerns of the public and of holding the Executive to account, we would wish to be involved in consultation arrangements and any future pre-decision scrutiny of future decisions being made by Cabinet in this area.