



REGENERATION AND ENVIRONMENT SCRUTINY COMMITTEE – 28TH OCTOBER 2014

SUBJECT: LEISURE CENTRES – MANAGEMENT OPTIONS

REPORT BY: ACTING DEPUTY CHIEF EXECUTIVE

1. PURPOSE OF REPORT

- 1.1 To advise Scrutiny Committee of the advantages and disadvantages of various Leisure (Trust) models and in doing so highlight the key features of the various options for managing Leisure Centres.

2. SUMMARY

- 2.1 In recent years there has been an increase in the number of Local Authorities outsourcing their Leisure provision. This report draws on a variety of sources of research and evidence to provide members with an overview of the key features of the various management models and attempts to provide a balanced view of the key advantages and disadvantages of each model. Reference is made throughout the report to four models, all of which are various forms of Trust.

There are four management models that are most commonly used to deliver Leisure provision in Local Authorities:

- a) In House Management;
 - b) New, Not For Profit Distributing Organisation (NPDO) – Trust;
 - c) Existing (or hybrid) Not For Profit Distributing Organisation (NPDO) – Trust;
 - d) Private Sector.
- 2.2 While evidence suggests that no single management option provides better services, there are pros and cons for each model. The rationale and reasons for transferring to an external provider must be clear from the outset. The advice from industry experts emphasise that a NPDO (Trust) should not be set up simply for financial reasons or as a short-term financial expedient.
- 2.3 The report highlights the benefit of members having direct control of an in-house model; however, there are also benefits to transferring risk when outsourcing provision. Outsourcing can also provide financial benefits particularly through claiming National Non Domestic Rates (NDR) relief; however, evidence suggests that the focus on income generation can reduce the focus on improving outcomes for residents through increased participation, particularly amongst hard to reach groups. The report concludes that it is important to establish the reasons for any outsourcing approach, have clarity about desired outcomes and acceptance that any model must not be a quick saving solution but a long-term vision for improved provision to customers.

3. LINKS TO STRATEGY

- 3.1 Sport & Leisure Services contribute to delivering the Corporate Improvement Objective Four (IO4) and to the Single Integrated Plan. The service also plays a significant part in improving the health and wellbeing of our residents, improved educational outcomes and the regeneration of our communities.

4. THE REPORT

- 4.1 There has been a steady growth in the externalisation of Leisure Services by Local Authorities over the last 10 years, particularly in England but more recently in Wales.

- 4.2 This report explains the various management models that currently exist together with the advantages and disadvantages of each option.

- 4.3 In England 70% of Local Authorities have outsourced their Leisure services to private sector operators or transferred them to Leisure Trusts. In Wales only, Neath Port Talbot have a long standing trust, however, this pattern has changed in recent years with more Local Authorities outsourcing Leisure provision.

- 4.4 The report draws upon a range of research and evidence gained from those Local Authorities that have already externalised Leisure provision and the lessons learned from their approach.

- 4.5 There are many, often complicated options available to Local Authorities, however, this report focuses on the 4 main management models that are most commonly being delivered by Local Authorities:-

1. In House Management;
2. New, Not for Profit Distributing Organisation (NPDO) – Trust;
3. Existing NPDO – including Hybrid Trust;
4. Private Sector Management Contract.

- 4.6 The following briefly describes each of the management options and provides examples of current operators:

Option 1: In House – Direct operation by the Council e.g.: Caerphilly County Borough Council (CCBC).

Option 2: New, Not for Profit Distributing Organisations (NPDO) – A new NPDO is a Trust established specifically to operate Local Authority provision – e.g.: Torfaen, Blaenau Gwent, Merthyr.

Option 3: Existing or Hybrid NPDO - A NPDO is a Trust already established by a Leisure Management Contractor e.g.: Halo, Greenwich Leisure.

Option 4: Private Sector – Leisure Management Contractor without the NPDO structure – e.g.: Park wood Leisure, Leisure Connection.

- 4.7 The table at Appendix 1 describes the key features of each of the management options. Research from various independent organisations provides evidence that there are many pros and cons for each option. It is also evident that “*no single management option delivers the best overall value for money or consistently results in more investment or higher levels of participation and that no single management option provides better services*” - Audit Commission – June 2006.

- 4.8 Prior to considering externalising Leisure provision, it is essential to clearly establish the reasons for a Trust approach. Evidence suggests that a Trust should not be set up simply for financial reasons or as a short term financial expedient, “if you are only doing it to save money, you are lost” - Winckworth Sherwood - 2010 “Trust for Big Society”. Another consideration prior to outsourcing is to decide which other potential services could be in scope, for example, Arts, Youth Service, and Libraries.
- 4.9 The rationale and reasons for transferring to a Trust must be clear from the outset as the transfer can be irreversible, Denbighshire County Borough Council did regain the management of Leisure provision after the originally appointed Trust failed in its contract albeit at a cost to the Council. It also takes at least 9 months to register an initial set up cost to the Authority. One of the reasons given by many Local Authorities to outsource to NPDO is that Leisure is a discretionary service, not a corporate priority and is competing with statutory functions of the Council when it is making budget cuts. However, despite it’s discretionary nature, no Local Authority has withdrawn from providing Leisure services.
- 4.10 Crucially, it is important for members to consider the advantages and disadvantages of each option.
- 4.11 Members should note that the current in house model is an integral part of the Council, where members have direct control. Any Trust model potentially results in the Local Authority losing control as the NPDO model must be independent and there is a limit on the number of Local Authority Board nominees (Usually less than 20 %).
- 4.12 In the current financial climate transfer of risk can be a benefit if considering the NPDO option. There is little risk transfer with a new NPDO, at least initially; however, there is full risk transfer with existing NPDO or the Private Sector.
- 4.13 A major benefit of outsourcing to a NPDO would be through NNDR relief and tax advantages. All of the main Private Sector operators have now established hybrid not for profit structures to enable them to offer the financial benefits charitable trusts can deliver. A charitable trust generally receives 80% NNDR relief from Central Government, with the host Local Authority having the option to grant a further 20% discretionary relief. Only a small percentage of trusts put NNDR savings back into Leisure. (Caerphilly’s NNDR costs for its Leisure Centre portfolio are circa £370,000 in total).
- 4.14 Most Local Authorities appear to have set up Trusts primarily to make savings. In a number of cases Local Authorities have failed to set up strong arrangements to secure service improvements or establish a responsible approach to investment. The reduction of subsidies by most Councils has created further pressures for some Trusts. As a result Trusts, like Private Sector contractors, have then concentrated on profit making areas in order to establish financial stability, thus reducing their focus on participation.
- 4.15 Many Trusts rely on annually negotiated revenue grants. This has an impact on the ability to plan sensibly and develop strategies which require longer term investment. Work with hard to reach groups needs to be pursued over the longer term to ensure consistent and sustainable approaches to achieve measureable outcomes.
- 4.16 If a Local Authority decided externalisation was the preferred management option it is clear that the following key principles need to be considered. Clearly established reasons for the Trust approach, clarity about desired objectives and outcomes, consideration of the scope of services to be externalised, and finally and most importantly, accept that the trust approach is not a quick saving solution, it has to be a long term and positive relationship.
- 4.17 If having considered the advantages and disadvantages of outsourcing there was an appetite for externalisation, and then a full and thorough detailed option appraisal would need to be commissioned to explore the preferred model of delivery.

5. EQUALITIES IMPLICATIONS

- 5.1 Any externalisation is likely to have significant equality implications. These implications would need to be outlined in a further report should any of the alternative management options be considered favourable, as the implications vary considerably depending on which option is progressed.

6. FINANCIAL IMPLICATIONS

- 6.1 The cost of delivering any of the potential management options would have to be outlined in a full business case.

7. PERSONNEL IMPLICATIONS

- 7.1 There are obvious complicated personnel implications associated with any externalisation model. While TUPE applies to staff transferring to a Trust, both pre and post transfer can be an unsettling time for staff. In all cases, any decision will be in accordance with the Authority's HR policies and procedures.

8. CONCLUSIONS

- 8.1 The report presents an overview of the key features of the various management models for Leisure provision, and draws on research, evidence and learning to present a balance of the advantages and disadvantages of these management options. The report also highlights that the externalisation process is complex and the need to clearly establish the reasons why an alternative model should be considered prior to any detailed options appraisal.

9. CONSULTATIONS

- 9.1 The report reflects the views of the listed consultees.

10. RECOMMENDATIONS

- 10.1 The Scrutiny Committee is asked to note the content of the report.

11. REASONS FOR RECOMMENDATIONS

- 11.1 To provide members with an overview of the advantages and disadvantages of various Leisure (Trust) models options and in so doing highlight the key features of the various options for managing Leisure Centres.

12. STATUTORY POWER

- 12.1 Local Government Acts.

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Cllr. David Poole, Cabinet Member for Community & Leisure Services;
Mark. S Williams, Head of Community & Leisure Services;
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Cllr. Tudor Davies, Chairman, Regeneration & Environment Scrutiny Committee

Gail Williams, Monitoring Officer/ Principal Solicitor,
John Elliot, Senior Research Officer

Appendices:

Appendix 1 Management Options – Key Features