

TITLE	Leisure Management Contract Options
FOR CONSIDERATION BY	The Executive on 27 October 2016
WARD	None specific
DIRECTOR	Stuart Rowbotham, Director of Health and Wellbeing
LEAD MEMBER	Angus Ross, Executive Member for Environment

OUTCOME / BENEFITS TO THE COMMUNITY

The Council's leisure centres provide residents and visitors alike with access to affordable leisure activities which support the health and wellbeing agenda across the borough. They also provide the location of physical activity curriculum activities for some of the Borough's schools and academies. The current leisure contract delivers these outcomes together with significant financial benefits for the Council in the form of a revenue stream.

Future management arrangements for the facilities should increase and improve the leisure offer for all our residents whilst significantly strengthening the Council's financial position through increased revenue income.

RECOMMENDATION

That the Executive:

- 1) Considers the range of options for the future management of the Council's leisure centres and approves the following recommendation:
 - (a) Option D - To begin the procurement process for new leisure operating contracts;
 - (b) Option 2 – To procure these as Leisure Operating Contracts;
 - (c) The contracts will be 10 years in duration with an option for a 5 year extension.
- 2) Considers the range of options for contract scope and approves the following recommendation:
 - (a) The inclusion of specific public health and wellbeing outcomes;
 - (b) The flexibility to allow facilities owned by neighbouring Local Authorities to be added to the contract at a later date;
 - (c) That the Director of Health and Wellbeing and Executive Member for Environment are delegated to decide if pitch bookings, and Ryeish Green Site are included in the contract.
- 3) Delegates authority to the Director of Health and Wellbeing and Executive Member for Environment to approve the contract terms.

SUMMARY OF REPORT

The provision of leisure facilities is not a statutory duty. In the current economic climate therefore, it is essential that the operation of these facilities delivers value for money and supports the wider social objectives set out in the Council's Vision; the Health and

Wellbeing Strategy; and the (draft) Leisure Strategy.

The current contract for the management of the Council's leisure centres expires on the 30th of April 2018. There are real opportunities for our leisure centres to continue to generate a substantial income to the Council whilst providing an affordable and accessible offer to the Borough's residents.

This report considers the options for future provision, and examines the advantages and disadvantages of each. The options under consideration are as follows:

- A. Manage the facilities in-house;
- B. Allows organisations to bid for the opportunity to run specific facilities under contract to the Council;
- C. Develop a shared service with one or more local authorities;
- D. Tender for a new contract to manage the facilities.

The report concludes that to achieve the Council's key objectives for the management of its leisure facilities, the best option is to tender for a single new Leisure Operating Contract with an experienced private sector operator. This retains the current tax benefits and allows in built flexibility (via variant bids) to allow new facilities to be added as they come on stream. There would also be flexibility to allow facilities currently managed by other Local Authorities to be added to the contract at a later date if required. The other potential options would present a greater financial risk to the Council.

Background

The Council's Sports Development and Leisure service comprises 3 main elements:

- Sports Development. The team runs a number of innovative courses and activities which support the Council's Health and Wellbeing agenda, such as targeted Long-term conditions and rehabilitation physical activity programmes; and Wokingham Active Kids school holiday programmes.
- Support for local schools, sports clubs and Town and Parish Councils. The team works in partnership to identify opportunities for joint projects, income generation and grant funding.
- Client role for the leisure management contract. This involves performance monitoring, contract meetings and the development of joint opportunities for investment and grant funding.

The Council's leisure centres are currently managed by C-Salt (Community Sport and Leisure Trust) an independent charitable trust supported by the leisure operator, 1Life. The contract, which expires on 30th of April 2018, currently covers the management of the following facilities:

- Loddon Valley Leisure Centre in Lower Earley;
- Carnival Pool in Wokingham;
- St. Crispin's Leisure Centre in Wokingham;
- Bulmershe Leisure Centre in Woodley.

As a Sports and Leisure Trust, C-Salt is able to take advantage of the VAT exemptions for sports and cultural services and the relief available for National Non-Domestic Rates (NNDR). This gives considerable savings to the Council and it is important that these savings are retained when the new arrangements are in place. C-SALT also has the ability to fund local sporting organisations with grants on a regular basis.

Outcomes

Management of the Council's leisure centres aims to support the Council's Vision, Principles and Priorities by:

- Supporting the key themes in the borough-wide Health and Wellbeing Strategy (2014-17):
 - Promoting good health throughout life
 - Building health and wellbeing into new communities
 - Improving life chances
 - Promoting emotional health and wellbeing
 - Supporting older people and those with long term conditions.
- Providing high quality, accessible and affordable opportunities for sport and

healthy activity which increase levels of participation.

- Delivering continuous improvement against jointly agreed performance indicators.
- Providing excellence in customer service and year on year increases in customer satisfaction.
- Supporting environmental sustainability through effective consumption of energy and other resources.
- Supporting economic and social sustainability through opportunities for employment, apprenticeships and volunteering for local residents.
- Managing the service to improve the Council's revenue position, through increasing memberships and centre use to maximise the income from the management fees payable.
- Ensuring adequate investment to maintain the Council's buildings and associated assets.

ANALYSIS OF ISSUES

Leisure Facilities

The new leisure management arrangements will cover additional facilities to those listed above, and there will be enhancements/ extensions to some existing facilities.

Table 1 : Leisure Facilities Covered by the New Management Arrangements

Facility	Built	Comments & Identified Maintenance
Loddon Valley Leisure Centre, Lower Earley	1982 1992	Existing. Swimming Pool added in 1992. No major works are planned. Routine maintenance work will be required.
Carnival Pool, Wokingham	1992	Existing. Major refurbishment and extension to include sports hall and fitness suite as part of Wokingham Town Centre Regeneration, subject to Executive approval. Works are expected to start in April 2019.
St. Crispin's Leisure Centre, Wokingham	1978	Existing. Dual use facility with St. Crispin's School. No major works are planned. Routine maintenance work will be required.
Bulmershe Leisure Centre, Woodley	1974	Existing. Dual use facility with Bulmershe School. Major refurbishment or rebuild, subject to Executive approval.

		Works are expected to start in May 2018 with expected 18 month duration.
MOD Legacy Sports Hall and Gym, Arborfield	2005	<p>Newly acquired.</p> <p>This is an existing 8 court sports hall and gym building adjacent to the proposed District Centre in the Arborfield SDL, previously operated for armed forces and its own personnel by the Ministry of Defence.</p> <p>Negotiations to secure for the long term the MOD Legacy Gym building are currently being taken forward by Officers of the Council.</p> <p>Dual use facility with the neighbouring newly-built academy, the Bohunt School Wokingham.</p> <p>The Bohunt Academy Trust has management of the premises until 31st December 2017, and a full public programme with memberships will be offered from 1st May 2018 at the time of the award of the new management contract. The interim period is set aside to complete the fit-out of areas for full public use, such as the fitness suite.</p>
New Swimming Pool, Arborfield	tbc	<p>Planned new facility.</p> <p>The Arborfield SDL has been identified as the site of new 4-lane 25 metre swimming pool to meet the increased demand from population growth in the south-west of the Borough.</p> <p>A detailed business case will need to be approved by the Executive including building specification; design; and the configuration with other facilities at Arborfield.</p> <p>The projected opening date is currently 2026.</p>

The Borough Council will reserve the option whether to include the new Ryeish Green Leisure and Sports Facility into a contract with other facilities or with a separate operator at a later date after all consultations and planning processes have been completed.

All facilities will have full condition surveys carried out on from November 2016, and any maintenance items or areas of concern will be highlighted from the report and will be noted in the main leisure contract papers.

The Future Options

A number of options have been identified for the future management of the Council's leisure facilities. In assessing the relative merits of each option, the Council has taken expert advice from a leading consultancy on the leisure market. The options are discussed in turn below.

Decision 1: Contract Scope Options

This decision answers the question of whether to manage the facilities in-house; or to go to out to tender to secure a provider or providers to manage the facilities.

Option A: Manage in-house

Wokingham Borough Council last managed its leisure centres in the year 2000. Some local authorities, including the neighbouring Bracknell Forest and Reading Borough Councils manage all or part of their leisure centre estate. Both have facilities which are in need or are being replaced. Most local authorities manage their facilities through a contract with a commercial or third-sector operator. There are in excess of 15 major multiple operators in the UK, including some that have their roots in local authorities and some others which are major facilities management organisations.

Table 2: Advantages and Disadvantages of an In-House Managed Service

Advantages	Disadvantages
All surplus revenue can be retained by the Council.	The Council retains the risk of expected income targets not being achieved.
Potential for greater staff involvement.	Difficulties in attracting or retaining specialist staff to an in-house service where there are only limited opportunities for this type of development.
	A limited number of sites mean the Council could not achieve the same economies of scale, and related savings, as an external provider.
	Reduced access to specialist skills such as marketing and leisure industry specific research.
	The Council has no current experience or expertise in the running of leisure centres. It is not their core business.
	Set up costs and cost of new management, IT and support systems.
	Current employees would be eligible for TUPE transfer back to the council. As well as the cost of the transfer, the council would be responsible for additional pension contributions.

This solution would increase the Council's control over asset and programme management, and allow the Council focus on service delivery and quality. Bringing the service in-house could ensure that all financial surpluses are retained by the Council. The Council would need to invest in new management capacity, new or additional IT systems, marketing and membership expertise, and administrative resources which are currently delivered by the contractor.

A key issue with bringing back the service in-house would be the continuation of the VAT and NNDR savings that have been achieved in the current contract. This would

require the establishment up of a charitable trust. This could be undertaken in either of two ways:

- i. By establishing a Sports & Leisure Trust; this would remove control of the service from the Council and any additional surpluses generated would be re-invested by the trust. Once Council services are placed into a leisure trust they cannot easily be returned to direct council management. The Council would have only limited control and influence with only 20% of Trustees.
- ii. To set up a local authority controlled company which would need to ensure the objectives of the company relate to the provision of charitable objectives and sporting activities.

In both these sub-options, the Council retains full financial responsibility in the event of failure.

Option B: Allow organisations to bid for the opportunity to run specific facilities under contract to the Council.

This option is to allow for a mixed approach to the management of the leisure facilities, with the potential for separate organisations to take on a contract with the Council for the management of the facilities. Organisations could include educational establishments; town or parish councils; charities or voluntary organisations; or sports clubs and teams.

This option will result in a reduction in the revenue income that we are likely to secure from the overall Leisure Contract of at least 20% (based upon the relative size of the facilities) and is not recommended as best option for the Council given our current financial position.

Table 3: Advantages and Disadvantages of Mixed Procurement Approach

Advantages	Disadvantages
This option may be considered a demonstration of the Big Society concept of the devolution of public services to be run by local people / organisations.	This mixed approach potentially removes the benefits of at-scale operation that a single contract with a single operator offers.
Educational establishments would be eligible to bid for the management contract for facilities on or adjacent to their premises where dual usage is provided.	Educational establishments and other organisations may lack the expertise essential to safely operate and market a full leisure and fitness offer to the general public.
	Educational establishments and other organisations may not be able to operate the memberships in conjunction with the other facilities / providers, resulting in a loss of freedom and choice for residents who may be limited to the use of single sites and facilities only within their membership.

	<p>This option will result in a reduction in the revenue income that we would secure from the total leisure contract of at least 20%.</p> <p>This is based solely upon the size of the facilities relative to the Council's overall leisure estate, and does not take into account the experience of an operator to maximise incomes.</p>
	<p>Educational establishments and other organisations may not be in a position to accurately determine the management fees payable to the Council's general fund, based upon inexperience of the leisure management market. This could result in an over-estimate which would negatively impact upon the finances of the managing organisation; or an under-estimate which would reduce the income stream to the Council.</p>

Option C: Develop a shared service with one or more local authorities.

The potential exists for the Council to procure a joint contract and form a shared service with an adjoining local authority. If there is a suitable local authority with corresponding contract dates, there are two potential possibilities:

- a) A joint procurement process and joint contract; this will give potential additional savings from the operator in terms of economies of scale, however both Councils need to agree joint contractual terms. This requires all participating councils to be very closely aligned in terms of their aims and required outputs for the contract, and all implications of the contractual arrangements would need to be scoped in detail before committing to the approach.
- b) A joint procurement process but separate contracts; this would save on procurement costs and still give the Council full control over the contract, but would lead to a more complex procurement process.

After a meeting with Reading Borough Council (RBC) it has been highlighted that they are also going out to procurement towards the end of 2016. The authority is planning to demolish Central Pool in the town centre in 2017, and also to close Arthur Hill Pool, at Cemetery Junction with a preferred replacement with a new 25m pool sited at Palmer Park Stadium. Another pool with diving facilities is likely to be located at Rivermead Leisure Centre, on the outskirts of the town centre with timescales for this yet to be decided. RBC has commissioned a feasibility report, and at present are awaiting costings to see if these options are financially viable. All other properties within the Reading Borough Council leisure stock, are dated, and will require significant maintenance and renovation work to be carried out. This is a high risk if looking to procure with RBC as the management fee would significantly be reduced as the contractor will have to heavily invest in the upkeep and

regeneration of Reading's facilities.

No other Local Authority in Berkshire or those neighbouring Wokingham Borough Council is known to be considering procuring their leisure services or centres within the same or similar timescale as Wokingham Borough Council.

Table 4: Advantages and Disadvantages of a Shared Service with a Neighbouring Local Authority

Advantages	Disadvantages
Economies of scale from a bigger contract.	More complex and time consuming procurement.
Potential for improved customer service through discounted access to a wider range of facilities.	The variable age/quality of different facilities may reduce overall returns.
	More complex governance arrangements requiring more management time.
	Reduced levels of control and influence; less responsive to Council priorities.

Table 5 : Advantages and Disadvantages of Joint Procurement Process

Advantages	Disadvantages
Shared procurement costs.	More complex and potentially longer procurement process.

As well as adding complexity to the procurement process, discussions with neighbouring authorities indicate that the current mix of provision (in-house and outsourced) and the varying length of existing contracts make a shared service option unfeasible at this time. The detailed financial implication of joint bidding is hard to assess without understanding the contract financials for the other councils.

It is recommended that a pragmatic approach is taken, whereby the contract contains a variant that will allow facilities currently managed by other Local Authorities to be added at a later date if this is proven to be beneficial to Wokingham Borough Council.

Option D: Tender for a new contract encompassing all current, planned and projected facilities.

The leisure market in London and the South-East of England is very strong with a number of major competitors who would be interested in bidding for the Council's contract. Private sector providers can bring a number of benefits linked to their service expertise and marketing capacity. They can also shoulder risk through the establishment of new facilities, or periods of limited use due to major works, by spreading costs over a long-term contract, and often reduce risks through their own project management of such schemes.

Table 6: Advantages and Disadvantages of a New Leisure Contract

Advantages	Disadvantages
A long term contract provides a guaranteed revenue stream which would ensure a zero-subsidy for the operation of facilities. It can underpin major capital investment. The procurement process will demonstrate best value to the Council with potential for better financial outcomes.	Possible lack of local knowledge of the new service provider.
Providers will have existing technical expertise in the maintenance of specialist equipment, and can benefit from economies of scale to reduce costs.	
Providers will have access to a central communications team with specific leisure industry expertise. They can benefit from economies of scale to reduce costs for marketing materials and campaigns. Effective marketing can maximise membership and increase income generation.	
Providers will be able to purchase leisure equipment at more favourable rates; they can negotiate better agreements as regular repeat clients.	
Providers will be expected to provide new ideas and innovation as a result of their experience in the leisure industry, to develop the service and maximise income.	
Providers can offer greater opportunities for specialist staff to move between contracts to gain experience in different types of environment and in different roles.	

Decision 2: Contract Type Options

This decision answers the question of which contract type provides the best option for the Council if option D is chosen. Under option D there are 3 possible contract types:

- 1) **A Concession Contract**; this grants the contractor the right to commercially exploit the leisure centre assets to generate a profit.
 - This can increase potential income to the Council, but at the expense of the operator being allowed to focus on activities that maximise income generation to meet their commercial objectives rather than achieving the Council’s own objectives.

- The construction of new facilities would be procured via separate procurements.
- 2) **A Leisure Operating Contract**; this requires the contractor to operate the leisure centre assets to provide services that meet the Council's service specifications.
- Whilst the contractor is required to focus on delivery of the Council's key objectives, they are also expected to maximise income generation for the Council.
 - The construction of new facilities would be procured via separate procurements.
- 3) **A Design, Build, Operate and Maintain (DBOM) Contract**; as well as operation of the facilities as in (1) or (2) above, major capital works are included in a contract (for example the building of a new facility). This involves the Council procuring a consortium (building contractor and operator) that will take the lead and take on the risk in the design, construction and the operation of the new facilities.
- The DBOM option would only apply to the proposed rebuild/refurbishment of the Bulmershe site; the building works for Carnival pool are already being managed separately as part of the Town Centre Regeneration project, and the future works at Arborfield cannot be specified in sufficient detail at this stage.

Table 7: Advantages and Disadvantages of a DBOM Contract

Advantages	Disadvantages
Only one procurement process is needed.	The tender process will be more complex and time consuming.
Full risk transfer for future life cycle and defects in completed building.	The Council will not have full control over the design of new Bulmershe facilities.
Potential of operator investment to improve facilities if there are opportunities for additional income.	The works at Bulmershe could be delayed, as they will be tied into the timing of the contract renewal.
	May exclude high performing leisure operators who cannot provide a DBOM service.
	Higher cost of bidding may reduce interest in the contract.
	Usually requires a longer contract length (up to 25 years).

It is recommended that option (2), a Leisure Operating Contract, is procured if the contract option D is chosen. This will maximise income to the Council whilst ensuring that the Council's stated outcomes are achieved. It will also ensure that the Council continues to provide an affordable universal offer that is unique and distinctive from the private sector alternatives.

The successful bidder will be required to demonstrate that the current VAT & NNDR exemptions can be retained, which is most likely via a charitable trust as in the current arrangements.

As the contract will be awarded before the planned opening of the Arborfield swimming pool, this would be included as a variant bid for the management of the facility based on an estimated opening date and facility mix, and bidders would be expected to include the projected revenue implications as part of the submission. Although this would not be part of the evaluation for the award of the contract, the Council will have a starting point for negotiations on the revenue impact of the facility and a contractual mechanism for incorporating the facility within the contract.

Additional Services Considered Potentially Within Contract Scope

If a decision is taken to procure a new contract, consideration will need to be given to the scope, and in particular whether or not the following are included:

- Grass pitch and artificial turf pitch (ATP) bookings
- Incorporation of social and public health outcomes
- Outreach programmes
- Potential for shared services

These will now be discussed in more detail.

Pitch Bookings

Bookings for grass pitches and artificial turf pitches across the borough are currently managed by the Council. It is expected that the Council's 21st Century Programme will make a recommendation on how bookings should be handled in the future and, if appropriate, this could be included within the scope of the leisure centres operating contract, as it is very similar to the work the operator will be doing within the leisure centres, namely marketing and booking facilities.

If pitch bookings are included the Council will need to consider if any of the sites require a staffing on site and who will provide this. Maintenance and security responsibilities would also need to be clarified

Inclusion of Social and Public Health Outcomes

It is recognised that there is a clear link between the provision of sport and leisure facilities and the aims of public health. As noted previously, management of the Council's leisure centres aims to support the Council's Vision, Principles and Priorities by supporting the key themes in the borough-wide Health and Wellbeing Strategy.

The new contract provides an opportunity for the Council to link its sports development activities with a health improvement plan for the Borough. The procurement project team will work closely with the public health team to identify objectives currently being delivered and what improvements that could be made in the new contract, how the success of the programmes can be measured and what funding streams are available to help deliver them.

Even when funding is limited, inviting people to leisure facilities for a specific health programme can provide an opportunity to show them the benefits of a healthy lifestyle

which includes sport and physical activity and may lead onto them becoming regular users of the facilities, thereby enhancing the business case for the delivery of the programme(s).

Outreach Programmes

As part of the social and public health outcomes, there may be an element of outreach into deprived and inactive communities in order to pilot interventions close to home before engaging with people to bring them into centre-based activities. Many leisure operators have built this approach into their business model.

Another areas where an outreach approach may be necessary is in the drive to attract new residents to the Borough (essentially those moving into the strategic development locations) to become members of the leisure centres and thus increase the potential income to the Council.

Potential for Shared Services

As noted earlier, whilst there are no current opportunities for joint commissioning with other Local Authorities, it is recommended that the contract allows facilities currently managed by other Local Authorities to be added at a later date.

Key Contract Terms

The Council will need to consider its options in relation to the future contractual arrangements for the management of the facilities when specifying the key contract terms. This will include consideration of the following:

- Contract Length. A 10 to 15-year contract is considered sufficient to allow an operator to build the business and deliver the best returns in terms of a management fee. This is typically 10 years with an option for a 5 year extension;
- Services Specification. This specifies the required outcomes, how success is measured and should be clearly linked to a defined payment structure;
- Pricing, Programming and Opening Hours;
- Performance Monitoring System and Payment Mechanism;
- Net Income Benchmarking;
- Loss of Revenue Provisions, to include those relating to the planned closure of sites for refurbishment or building;
- Surplus Share Arrangements;
- Utilities Risk Share Position;
- Maintenance Splits, to include the establishment of a sinking fund for future maintenance liabilities;
- New Equipment and Equipment Replacement.

Financial Business Case

Advice that the council has received from the specialist leisure consultancy we have employed is that the market is very buoyant; and that we should expect to receive a minimum annual management fee of £1million from the operation of its leisure facilities; whether under a single or multiple operating contract, or from in-house management. Clearly this should be our minimum target, and we should have ambitions to

significantly exceed this figure so that this benefits directly the Council's general fund. Bidders will be expected to demonstrate how any additional income can be achieved. Note that net income to the Council will reduce during the planned works to Bulmershe and Carnival Pool, when these facilities will be unavailable for defined periods to enable the building work to take place.

Sinking Fund

A sinking fund could be established to cover the expected future liabilities for maintenance of the leisure facilities. The annual contribution to the fund will be based on detailed condition surveys undertaken by Property Services during November 2016. This will then calculate a total sum required over a 15 year period for planned maintenance. The detail of the lifecycle maintenance works which would be covered by the operator and which will be specified in the final contract will also affect the level of sinking fund contributions required.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Financial Year 18/19 (Year 1)	Range between £300-700k gross additional income – sink fund contribution will come from this additional income	Yes	Revenue
Financial Year 19/20 (Year 2)	Range between £300-£700k gross additional income – sink fund contribution will come from this	Yes	Revenue
Financial Year 20/21 (Year 3)	Range between £300-£700k gross additional income – sink fund contribution will come from this	Yes	Revenue

Other financial information relevant to the Recommendation/Decision

These figures are for additional income expected from the contract which is additional to

the £660,000 in the current contract. Contributions to the sinking fund will be established after full conditions surveys have been undertaken and the lifecycle works schedule agreed with the chosen operator. This sinking fund contribution will then be considered annually as part of the normal council budget setting processes.

Cross-Council Implications

Priorities for leisure have been set out in a draft leisure strategy, and this paper follows the principles contained therein. The paper also follows the philosophy of maximising income contained within the 21st Century Council programme. There are implications for property services as the freeholds of the centres and the associated maintenance responsibilities, which will be clear in the final contract with providers, will remain with Wokingham Borough Council.

As the council refreshes the local plan, the impacts of further post 2026 population growth will need to be addressed in plans for leisure provision.

List of Background Papers

FMG Wokingham Leisure Procurement Plan, April 2016.
Sport England Procurement Toolkit, May 2013.
WBC Draft Leisure Strategy, 2016.

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