



To: Executive Councillor for Arts, Sport and Public Places: Councillor Rod Cantrill  
Report by: Head of Arts & Recreation, Debbie Kaye  
Relevant scrutiny committee: Community Services Scrutiny Committee 30/6/2011  
Wards affected: All Wards

## **FUTURE LEISURE MANAGEMENT OPTIONS**

### **Key Decision**

#### **1. Executive summary**

1.1 The Council has a current leisure management contract in place to run its portfolio of leisure facilities within the city. Sport and Leisure Management Ltd (SLM) is the current provider and this contract with the Council will expire at the end of September 2013.

1.2 The City Council is considering how its leisure facilities and associated activities will be run from October 2013 onwards. Work has begun to identify relevant and affordable options that will enable continuation of a range of quality services for residents and visitors in the future.

#### **2. Recommendations**

The Executive Councillor is recommended:

2.1 To authorise the Director of Customer and Community to undertake a procurement exercise and to award contracts for an external leisure consultancy agency and external legal advisors to provide expert guidance to the Council in connection with the implementation of new arrangements for the management of the Council's leisure facilities.

2.2 To instruct Officers to commence work on the development of a procurement strategy including contract specifications, contract evaluation and award processes for any future leisure management provision, in line with the recommended approaches identified in sections 3.9 and 3.10 of this report, subject to guidance from appointed consultants and legal advisors.

2.3 To instruct officers to bring to Community Services Scrutiny Committee in January 2012 a report for approval authorising procurement of external or alternative management arrangements for the leisure management portfolio from October 2013 onwards.

### **3. Background**

3.1 The City Council has had an external leisure management provider running the majority of its leisure portfolio for nearly 20 years. This began in 1992 when Empire Leisure Ltd was awarded consecutive contracts to run Abbey and Kings Hedges Learner Pool and the outdoor pools provision for 11 years. In October 2003 SLM Ltd was awarded a contract to run a larger portfolio, including Parkside Pools and the Cherry Hinton Village Centre. The SLM contract achieved savings for the Council of approximately £500,000 per annum against the previous arrangements, on the basis of a best value led approach. This involved utilisation of SLM's trust model, other tax benefits and the economies of scale a major leisure contractor can provide.

3.2 SLM Ltd was awarded a 7-year contract with an extension option for a further 3 years. This was approved in January 2009 following an options appraisal and soft market test for best value. The extended contract expires at the end of September 2013.

3.3 An external leisure management consultancy was engaged to undertake market testing as part of the options appraisal and soft market test referred to in 3.2 above. The consultancy found that the fees paid to SLM for the range of provision and facilities provided best value for the Council at that time, and the option to extend the contract rather than go to open market procurement was the most financially advantageous option for the Council.

3.4 The extension process highlighted concerns from elected members around adequacy of customer responsiveness, cleanliness and maintenance at some sites. To address this, new performance management and monitoring regimes were introduced as a condition of the offer of the extension period. This is overseen on a quarterly basis by members and officers, and had resulted in a reduction in the number of complaints and greater transparency in the monitoring of performance.

3.5 This part of the report outlines potential service delivery methods that have been considered.

#### **3.6 Return to in-house provision**

In this option, at the end of the contract term all of the facilities return to direct management by the City Council and all Cambridge based SLM staff are transferred under TUPE<sup>1</sup> to the City Council. The primary benefit to the Council would be direct control of the service. However, this option is deemed not viable and is not recommended, primarily due to the

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<sup>1</sup> The Transfer of Undertakings (Protection of Employment) Regulations (TUPE) protects employees' terms and conditions of employment when a business is transferred from one owner to another

considerable increased costs to the Council above the current baseline. These would include loss of National Non Domestic Rate Relief (NNDR), VAT savings, and additional VAT Exempt issues, along with increased staffing on costs and pension arrangements. There may also be a negative impact on the Council's VAT de minimus position.

### **3.7 Formation of a Local Trust**

This option would require the Council to establish a leisure trust and then bid within the open market against other leisure providers for the contract. The benefits would more localised control through a membership board, a stronger focus on community engagement, and the ability for other local and educational leisure sites to join the trust portfolio. This option is not seen as viable and as such is not recommended for various reasons including, the legal costs associated with the formation of a new trust, no trading or financial history on which to bid, no guarantee of contract award and loss of economies of scale. There is no additional financial saving to be made as the current leisure provider already operates a trust model to achieve the appropriate savings from the contract.

3.8 The following options outlined in 3.9 and 3.10 are considered to be more advantageous to the Council and as such are recommended to form the basis of the Council's future approach alongside guidance from leisure management consultants and legal advisors:

### **3.9 Continued externalisation and EU procurement exercise**

A full EU market procurement exercise inviting private and trust based leisure management operators to bid to run the portfolio of leisure services owned by Cambridge City Council only. This approach has been demonstrated to deliver best value as well as a cohesive approach to leisure management. Issues of importance to the Council (for example, engagement and access) can be addressed through a clearly defined contract specification, an emphasis on developing partnerships and proactive performance management.

### **3.10 Shared Services Options – collaborative procurement**

Approach other Councils within Cambridgeshire to assess whether there is both scope and willingness to consider amalgamation of services to form a larger mass of leisure facilities and activities. This could provide greater economy of scale, standardisation of services and an improved range of opportunities for public access. A collaborative approach could then be tendered as a EU procurement exercise in the open market.

### **3.11 Future contract specification**

It is proposed that particular emphasis is placed on the following areas:

### 3.11.1 Levels of Service Provision

Officers will develop levels of service provision in consultation with stakeholder groups and will undertake an EqIA as part of the process. This work will consider the operation of facilities, opening hours, extended service arrangements, staffing requirements, provision for clubs and group use, programming, and maintenance requirements throughout the facilities.

### 3.11.2 Price

Further works will be undertaken with leisure management consultants to evaluate any additional savings that could be made for future provision. The current market situation indicates it may be possible for the portfolio to continue to be managed in its entirety within the existing leisure management revenue budget.

The challenge will be to identify areas of potential savings, particularly around the reduction of utility expenditure. It is envisaged that capital investment to save measures may be part of the contract specification, and that these measures could have an impact for the reduction of the management fee over the duration.

There is scope to allow full control of pricing and programming to allow operators to maximise income potential therefore reducing the management fee. Initial discussion with elected members identified that there may be support for the Council to retain control over headline pricing but offer greater flexibility on opening hours and programming.

The length of contract to be awarded will also be evaluated for the potential of making savings. Current market feedback is that terms of between 10 to 15 years are currently viewed as the most cost effective approach with opportunities for review and break clauses to be incorporated at a cost.

### 3.11.3 Performance

In the remaining 27 months of the existing contract, officers will work with SLM to continue to monitor performance carefully. The Internal Audit service has scheduled a full review of the current arrangements and these findings will feed into proposals for the new contract specification. The following areas will be included and refined for any future contract specification:

- **Satisfaction** – Levels of public satisfaction will continue to be monitored, evaluated, and reported upon.
- **Throughputs** – Current trends and statistical analysis of usage, and uptake of promotional activities.
- **Accessibility** – Pricing, programming, Club and lesson programmes, equitable access through the Leisurecard scheme.
- **Quality** – Levels and standards of provision, maintenance, capital investment, and staffing arrangements.

### **3.11.4 Community Engagement**

The topic of community engagement and customer responsiveness was discussed at a briefing for elected members on 1<sup>st</sup> June 2011, alongside analysis of risks and benefits of community asset transfer and potential application across a number of sites.

Following further debate, officers recommend that the Council should retain ownership of assets within the current portfolio, but strengthen and extend opportunities for community engagement and additional activities at local facilities. It is intended that this approach will enable local people to have a greater say on the range of activities and programming at various sites, but within the relatively low risk approach that a leisure management contract can provide. Options to be explored further as part of this approach include;

- Provision of extended services being run by community groups but within the scope of the contract and therefore supported by the leisure management provider. Examples might include out of season activities at Jesus Green Outdoor pool to include sub aqua, canoeing, triathlon/outdoor and endurance swimming training.
- To strengthen and extend opportunities for community engagement at local facilities. To enable local people to have a greater say on the range of activities and programming and coaching, volunteering and staffing at various sites.
- Encouragement of social enterprise.

### **3.11.5 Reduction of the Carbon Footprint**

An essential part of the future contract specification will be the requirement for the reduction of Carbon emissions from the portfolio.

The new specification will require the contractor to make capital investment into the portfolio's to reduce the carbon emissions over the lifetime of the contract; also realise invest to save opportunities that can be linked to reductions in the management fee.

This year's £350,000 improvement programme to Parkside changing rooms will consider options for energy saving measures. Last year an expert report identified opportunities for further carbon reduction measures and these will be incorporated into the overall asset management programme.

Ongoing project scoping works for the District Community Heating scheme will also factor into any new contract specification ensuring any future leisure management provider at Parkside Pools will proactively engage in consultation and the programme, and any beneficial outcome recommendations are implemented.

### **3.12 Consultation.**

A briefing was held with elected members and views and comments arising from this have helped shape the content of this report. Further consultation with members and stakeholder groups will take place as part of work to develop the new service specification and progress future arrangements.

## **4. Implications: -**

### **(a) Financial**

The management fee is a major consideration and any work on the new provision will focus on what potential there is for a reduction linked both to the competitive tendering process and a reduction of utility costs through carbon reduction initiatives.

- It needs to be noted that the 2003 contract award released the majority of savings within leisure management operations through the trust model that SLM (and other leisure management organisations) operate. As a result, savings of approximately £500,000 per annum were realised, primarily through NNDR relief, and VAT savings.
- If the option of returning the services in-house is selected as a preferred option, current expenditure would need to be at least doubled (on the current cost baseline) to support this choice.
- If selected, the trust model option would require additional funding over and above that currently allocated to the leisure management contract.
- A total of £50,000 is allocated within the 2011/12 and 2012/13 budgets to support consultancy and legal costs.

### **(b) Staffing**

- There are no staffing implications to Cambridge City Council employees, but this project will involve a significant resource within the Arts & Recreation service. Expert advice and support will be provided through the appointment of a leisure management consultancy and legal advisors.
- There will be TUPE implications for SLM staff if another leisure management provider is awarded the contract from Oct 2013
- There will be TUPE and staff implications for those SLM staff that are assigned to the Council's contract if the decision is made to bring the operation back in-house. Such a transfer could affect many of the City's internal services from HR to Finance teams.

### **(c) Equal Opportunities**

- An Equality Impact Assessment will be undertaken in Autumn 2011 as part of work with stakeholders to develop the service specification.

#### **(d) Environmental**

- The specification will seek to address and improve upon the current environmental position of the leisure services portfolio.
- Capital investment will be sought for invest to save opportunities for carbon reduction of the portfolio over the lifetime of the contract.

#### **(e) Community Safety**

- There are no specific community safety issues to be addressed within the service area.

#### **5. Background papers**

N/A

#### **6. Appendices**

N/A

#### **7. Inspection of papers**

To inspect the background papers or if you have a query on the report please contact:

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