



Report to Cabinet

Subject: Procurement Options for Leisure Centres

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1. Purpose of the Report

This report aims to update Cabinet on the work undertaken and issues identified regarding the future procurement options for Leisure Centres and to make recommendations in relation to this.

2. Background

Gedling Borough Council has previously committed to considering the procurement options for the provision of its Leisure Centres in order to establish if an alternative method of provision could achieve financial and service benefits to the Council and the community.

In 2006, working groups were established to investigate the various options and site visits were undertaken to assess the relative advantages and disadvantages of all the options. The Member Working Group consisted of Councillor Wendy Golland (Portfolio Holder for Leisure and Youth), Councillor Anne Wright, Councillor Ged Clarke, (Councillor Grace Millar- In initial stages) and more recently Councillor Sandra Barnes and Councillor Melvyn Shepherd.

The site visits included Ashfield District Council (Arms Length Trust arrangement), Rossendale Borough Council (In house Trust arrangement) and Hereford Council (Existing Trust arrangement), Rugby (Private Operator) and Colchester Borough Council (Considered options and stayed in house).

A specialist consultancy company (Strategic Leisure) was appointed in 2006 to undertake an option appraisal. This work identified the key issues and made conclusions and recommendations on the findings at that time. It recognised that the decision should not relate solely to financial benefit but identified potential savings of between £90,000-£231,000 for transfer to a new (NPDO) Non- Profit Distributing Organisation (Depending on vat issues). It recommended, however that the Council should pursue a Hybrid or Existing NPDO or private operator with potential savings of £141, 000. It also raised issues in relation to the Councils priorities, in relation to future provision of leisure centres and Joint use issues.

However, work on the options was delayed for a number of reasons including:

Condition survey- In order to ascertain the future investment needs of the buildings a condition survey would be needed. The survey itself would cost approximately £50,000. Previous surveys (2004) have identified a need of £3.5 million pounds worth of investment in the 5 facilities.

Central Establishment Charges- In order to assess the full financial impact of any change, there is a need to understand how these costs are currently apportioned to Leisure Facilities/ Leisure Services and the impact of withdrawing these on the remaining services/ areas of the Council. This was not possible at that time.

Nottinghamshire County Council/ Joint Use- 3 of the 5 Leisure Facilities (Carlton Forum, Calverton and Redhill) are provided through Joint Use agreements with Nottinghamshire County Council. The agreements expire in 2013. In addition Redhill has become a Foundation Status School and the implications for this are not yet clear.

3. Findings of Member Working Group

Following the site visits and further consideration of the options the Member Working Group found that there were a number of areas that constantly raised concerns in relation to Gedling Borough Councils position. These are as follows:

a) Central Establishment Charges

Experience from other councils suggests that it is highly unlikely that the amount currently charged to the leisure centres in respect of the council's central establishment costs, including the cost of leisure headquarters, could be saved. These means that any transfer of the leisure centres to another operator would almost certainly result in an increase in central establishment costs for other services and add to pressures on council tax levels.

b) Client Function

There would be a need to provide a Client Function within the Council to retain some expertise in house to manage the contract and relationship with the Contractor.

Councils that had not planned or provided funding for this requirement found the need to do so, which affected their achievable savings.

c) Trust Representation

If the Council require the Trust to have representation on Council and wider partnership bodies (Neighbourhoods groups/ Local Strategic Partnership) there would be a cost to the Trust or contractor in allowing this time.

d) Trading Company

Profit making activities, such as bar and café sales, cannot be run by the 'not for profit trust' and would need to be conducted by a separate company. This means that a separate company would need to be established to facilitate these

activities. The costs of this second company have not been considered in previous assessments.

e) Establishment of the Board

There are difficulties in establishing a Board of sufficient number of people with the correct skills and knowledge base. There would need to be separate boards for both the trust and the 'trading arm'.

f) Set up costs

There would be considerable set up costs associated with external legal and financial advice covering two companies/ boards. This will cover charities, asset and joint use issues in relation to the contract and Service Level Agreement.

g) Value Added Tax

Even authorities that have entered into Trust options have described this as 'very complex'. There are still challenges in law to the position with regard to V.A.T. on trust arrangements. It is not yet clear how these would impact on potential saving in Gedling.

h) National Non Domestic Rates (NNDR)

Clarification is still needed about how potential savings on NNDR would be achieved at Joint use sites where potentially the County Council may want to retain some of the savings.

i) Income Generation

All site visits suggested that new companies would generate additional income, from that previously generated by in-house operations. It is generally thought that this additional income would be generated by investment in Health and Fitness, I.T. chip and pin, memberships and marketing. It is therefore important to assess the base line for this in relation to Gedling as considerable investment has already been made in these areas and current pricing levels are comparatively high. Site visits have suggested that many business plans have overestimated the level of additional income that can be achieved.

k) Condition Survey and Asset Management

There is a need to undertake a Condition survey to understand the level of investment needed, for repairs and maintenance, during the life of the contract. If there is additional income or savings to be made, this may provide the trust with the ability to borrow in order to fund this investment. However, if income and savings do not materialise the condition of the asset may be at risk. There will also be a need to have firm arrangements to outline the schedule of works and responsibilities.

l) Joint Use Arrangements

Currently Gedling has one of its Joint Use schools that has achieved Foundation Status. The joint use agreement for this school has still not been finalised. It is anticipated that most schools will be considering foundation status in the next few years. The Joint Use agreement with Nottinghamshire County Council is due to expire in 2013. This may affect the Councils position in relation to joint use.

m) Building Schools for the Future

Nottinghamshire County Council has not yet established the next round of the Building Schools for the Future programme. It is understood that currently work is being done to establish the future needs of school provision and that it may be some time before the final programme is known. Further to this, once the level of provision is clear, there will need to be further work to assess priorities within the programme schedule. It is likely that the programme will affect the provision at Redhill and Calverton, and possibly at Carlton Forum, but further clarification will be needed with regard to what is to be provided in future and potential dates.

n) Staffing issues

A key issue in relation to staffing arrangements is the pension rights for the staff that are transferred. The need for any alternative operator to obtain a bond to cover any potential deficit is very challenging, and costly, in the current economic climate. This would significantly reduce the number of potential alternative suppliers and also any benefits that may arise from any change.

o) Market Conditions

It has been established that in the current economic climate there are fewer potential partners or contractors that would wish to be involved in the development of a Trust arrangement with the Council. Those that may show interest are likely to be extremely risk adverse. This is likely to mean that the Council would need to retain risk in relation to energy costs for example. Private or Trust partners are also less likely to be able to raise capital.

4. Resource Implications

Whilst it is recognised that in 2006 it was anticipated that potentially £141,000 savings could be made, by following an alternative procurement method for Leisure Centres, the issues listed above raise significant doubts about whether such savings could actually be achieved.

5. Recommendations

The Members' Working Group agreed to recommend that in the light of the uncertainties and issues identified by them the Cabinet should not pursue alternative methods of procurement for leisure centres at the current time but should review the matter again in approximately five years.

6. Wards Affected

All