DERBYSHIRE DALES DISTRICT COUNCIL

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23 November 2016

To: All Councillors

As a Member of the **Council**, please treat this as your summons to attend a **SPECIAL MEETING** to consider the **Leisure Service Review** on **Thursday 1st December 2016 at 6.00pm in the Council Chamber, Town Hall, Matlock DE4 3NN**

Yours sincerely

Sandra Lamb
Head of Corporate Services

AGENDA

1. APOLOGIES

Please advise Democratic Services on 01629 761133 or e-mail committee@derbyshiredales.gov.uk of any apologies for absence.

2. PUBLIC PARTICIPATION

To enable members of the public to ask questions, express views or present petitions, **IF NOTICE HAS BEEN GIVEN,** (by telephone, in writing or by electronic mail) **BY NO LATER THAN 12 NOON OF THE WORKING DAY PRECEDING THE MEETING. NB: REPRESENTATIONS MUST RELATE SPECIFICALLY TO ITEMS BEING CONSIDERED BY THE COMMITTEE AT THIS MEETING.**

3. INTERESTS

Members are required to declare the existence and nature of any interests they may have in subsequent agenda items in accordance with the District Council’s Code of Conduct. Those interests are matters that relate to money or that which can be valued in money, affecting the Member her/his partner, extended family and close friends. Interests that become apparent at a later stage in the proceedings may be declared at that time.

		Page Nos
4.	**LEISURE SERVICE REVIEW – FINAL REPORT** To consider a report that sets out the options available for the future provision of the District Council's Leisure Services, and recommendations that seek to protect the services and secure the Council's ability to continue to deliver a quality Leisure Service, whilst making a significant contribution to the Council's continued financial sustainability.	**3 - 98**

NOTE

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NOT CONFIDENTIAL – For public release **Agenda Item No. 4**

SPECIAL COUNCIL
1 DECEMBER 2016

Report of the Head of Community Development

LEISURE SERVICE REVIEW – FINAL REPORT

PURPOSE OF REPORT

This report looks at the options available to the Council for the future provision of the Council's leisure services and recommends a way forward that protects the services and secures the Council's ability to continue to deliver a quality leisure service whilst also making a significant contribution to help secure the Council's financial sustainability.

RECOMMENDATION

1. That Option A (contracting out the District Council's Leisure Centres to specialist leisure management contractor, whilst retaining the Sports Development team in-house) is approved as the most suitable option for the future management of the Leisure service
2. That a period of consultation with key stakeholders is approved to help define the specification of the contract
3. That the specification is put out to tender by 31st May 2017
4. That a report is presented to Council no later than 31st May 2018 outlining the findings of the tendering exercise and the financial impact on the Council, before a final decision is made
5. That the Community and Environment Committee be delegated authority to determine a final specification following the consultation as outlined in the report.

WARDS AFFECTED

All

STRATEGIC LINK

The review has reflected on the District Council's priorities whilst also seeking to ensure that we deliver value for money and work effectively with partners.

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1. BACKGROUND

1.1 In response to Government changes to public sector spending, the Council will have seen its grant funding reduce by 56% between 2013/14 and 2019/20. This has necessitated significant savings having to be made in order to present a balanced budget.

1.2 On 26th September 2013, the District Council considered the Medium Term Financial Plan which showed that over the following three years, savings of over £1.4 million were required. At the same meeting, the Council considered a report on 'Planning for the Future', which approved a series of service reviews, including a review of Leisure

Services, which would be carried out with the intention of achieving savings to contribute towards the overall savings target.

1.3 As with all Service Reviews, the scope of the Leisure Review would consider three questions:

- Does the service need to be provided at all?
- Does the service need to be provided by the District Council or could it be provided by someone else; and
- What level of service is needed?

1.4 On the 16th January 2014, the Community Committee considered a report which set out the review process and the methodology for bringing the leisure review to a conclusion. The report reflected upon the substantial contribution Leisure Services has made across the District but noted that the Peer Review report commented that the level of subsidy support provided by the District Council, whilst reducing was still considered to be high.

1.5 A Leisure Service review team was formed to support the process, comprising of officers from across the District Council. During the course of the year a range of meetings with staff from Leisure Centres, Sports Development, elected members and external agencies such as Sport England, Derbyshire Sport and representatives from Hathersage Swimming Pool were held.

1.6 The review was split into two phases; the first phase was to identify operational improvements and efficiencies, and the second phase was to consider the longer term management and delivery arrangements.

1.7 A report on the outcomes of the first stage of the review was considered by the Community Committee on 10th July 2014. This identified a number of opportunities to achieve greater savings, protect and enhance income and/or achieve more efficient working arrangements. In total savings amounting to £111,500 were identified and an action plan to achieve these by 31st March 2015 was put in place. These savings have now been delivered.

1.8 The second phase of the review included numerous site visits and discussions with other Local Authorities, to help identify alternative delivery models for Leisure Services in the longer term which helped with reducing costs whilst securing the future of the service at a time when the public sector can no longer provide this assurance.

1.9 The visits were extremely useful in helping to understand those issues which contribute towards the delivery of an efficient and effective service. The main conclusion drawn by the review team was that the specific management arrangement in place (whether delivered by a private contractor, a trust or local authority) is not the defining factor in whether a quality product is delivered at an affordable price. Good (and sometimes not so good) practice was observed in all of the differing management arrangements.

1.10 The most important thing is that a service needs to have a clear focus, be efficiently managed, be responsive and customer orientated. In many cases costs have been reduced by investing in measures such as new equipment and facilities (e.g. gym equipment and fitness studio space) that are designed to increase participation and thereby maximise income.

1.11 In addition to the visits, and after a successful tendering process, FMG Consulting Limited was appointed to support the second phase of the review. FMG was commissioned to provide a detailed Business Options Appraisal, outlining the financial implications and feasibility of the alternative management options currently available. This was to determine the most effective choice for Derbyshire Dales in line with the District Council's local priorities, financial pressures and local needs.

1.12 After several months of review and consultation with management, staff and stakeholders, the final Options Appraisal report was completed and provided in October last year highlighting five possible options. These are outlined in the table below.

Options	Leisure Centre	Sports Development
One	In-house	In-house
Two	Outsourced	In-house
Three	Outsourced	Outsourced
Four	New Not for Profit Distributing Organisation	New Not for Profit Distributing Organisation
Five	Retain: Arc & Ashbourne Community Asset Transfer: Bakewell & Wirksworth	In-house

1.13 On 14th January 2016, a presentation was given via a Members Workshop outlining the work carried out, options available and related benefits. The main report was then circulated to Members for reference. A second workshop was held on 24th February 2016 to allow Members an opportunity to discuss the options in greater detail. Given the amount of work required in considering the feasibility of each option, Members were asked to provide a steer as to which option(s) they considered most appropriate.

1.14 Although it was clear most Members wished to retain all four Leisure Centres and the Sports Development team, given the District Councils financial position, this option was not considered to be financially sustainable. It was, therefore, agreed that Options 2 and 5 were the most appropriate options, and that further information should be gathered and presented on the viability of these two models.

1.15 In addition to the Members Workshops, several discussions with relevant stakeholders and staff have taken place, including several meetings with representatives from Anthony Gell School/Foundation.

2.0 OPTIONS APPRAISAL

2.1 The Business Options Appraisal (Appendix One) was received at the end of October and considered by the Corporate Leadership Team before meeting with the Consultants on the 15th November 2016. The report identifies the following:-

Option A – This would involve retaining the Sports Development function in-house with the Leisure Centres being contracted out to a specialist leisure management operator via a competitive tendering process (following OJEU regulations). The contract term offered is often for a period of between 10-15 years, with the majority of operational and financial risk sitting with the contractor. The Council will retain the overall liability for the facilities and would manage the contract in a client role. There will still be some risk in relation to lifecycle costs (plant and structure), and possibly utility costs.

Option B – This would involve retaining Arc, Ashbourne and the Sports Development function on an 'in house' basis, maintaining its direct responsibility of the facilities, income and expenditure. The Council would be required to carry out a community asset transfer for both Bakewell and Wirksworth. However, this would involve finding or creating a suitable community organisation. In order for the organisation to capitalise on external grant funding, the Council may wish to consider a minimum of a 25 year lease.

Option C – This would offer a hybrid of the two previous options. Finding or creating a suitable community organisation(s) to transfer Bakewell and Wirksworth to, retaining the Sport Development function in-house and outsourcing Arc and Ashbourne through a competitive tendering process; leaving the Council with no direct management responsibility for any of the Leisure Centres.

2.2 Through means of soft market testing and consultation with local parties, the following was identified:

a) There is strong interest in Option A from six out of the seven major leisure operators, with some interest in Option C ('A' being the preferred option).

b) There is interest from The Swimming Pool Trust, Anthony Gell School, School Foundation and the local Health Centre in being part of a new community organisation; taking on the responsibility of Wirksworth Leisure (but not Bakewell Swimming Pool).

c) There was no community organisation identified for the transfer of Bakewell Swimming Pool, however it is believed that there is enough social capital to deliver this.

2.3 As part of the consultation, a proposal was put forward by representatives of the School Foundation, Anthony Gell School and Swimming Pool Trust as a sub-option. However, FMG have stated 'in reality it is almost exactly how we envisage Option B would work if a new community trust was formed'.

2.4 Having considered all options, 'Option A' is clearly identified as the preferred model, discounting both Option B and Option C as viable options both in terms of delivering savings or improving the service.

2.5 The report makes brief reference to the possibility of creating a trading arm for the delivery of the service. Although a trading arm or LACC (Local Authority Controlled Company) was not identified as part of the second stage of the review by Members, FMG believe the emergence of this model is a possibility, should the Council wish to retain control of the provision of Leisure Services. However, it is clear that Option A is the recommended route, and the risk associated to a LACC will need to be carefully considered in light of the overall timescale for delivery of the savings identified in the Council's Medium Term Financial Plan.

2.6 For information, a LACC would be not for profit but would be wholly owned by the Council and will not be a registered charity. This means that it would be able to access VAT benefits but it would not qualify for mandatory NNDR relief, which would therefore substantially reduce any potential savings.

2.7 Projected financial savings identified under each option are as follows:-

	Y1	Y2	Y3	Y4	Y5
Current Cost	738,402	738,402	738,402	738,402	738,402
Option A	-360,110	-475,780	-475,780	-475,780	-475,780
Option B	-100,700	-168,210	-187,070	-198,150	-233,270
Option C	-173,210	-264,730	-264,730	-264,730	-264,730

2.8 Set-up/implementation costs also need to be taken into consideration for each model; £75k (Option A), £85k (Option B), £140k (Option C) and £85k for a LACC.

2.9 Should the Council approve the purchase of new fitness equipment on the 24th November 2016, this will result in additional revenue savings of approximately £120,000 per annum, offering a payback period of two years, as well as any additional income generated by the improved offered. New equipment may also enable the Council to acquire a better financial package, should a decision be made to outsource the service.

3. CONCLUSION

3.1 It is clear from the findings that Options B and C do not offer the same level of savings as Option A, and the possibility of sustaining and improving the service to the end user is questionable. In addition, there is no assurance the transfers are achievable within the required timescales, or even at all.

3.2 As identified in the Risk Assessment contained within the Consultant's report, the risk for fluctuations in utility costs, standard of service and management expertise will remain with the Council under Option B. Also, the risk is high for both Option B and C in the provision of a standardised consistent service across the District, as each service would be fragmented and each Leisure Centre would not be able to be accessed as it is now. Therefore, neither Option B nor Option C is recommended by Officers due to the high risks involved.

3.3 The LACC model is also high risk and is also, therefore, discounted. The savings, which are dependent on increasing income, could take at least five years to mature and match those offered by Option A, and are then not guaranteed. For the organisation to achieve its Medium Term Financial Plan, savings of £0.5m per year need to be made by 2018/19, rising to £1.2m by 2021/22. The Efficiency Plan considered at Council on the 24th November 2016 requires significant savings from Service Reviews, of which only Leisure is of the necessary scale, in the next three financial years. A LACC will struggle to achieve this, placing the Council's overall financial position at risk. Although there would be some relief on VAT, this option would still be subject to market and utility fluctuations and reliant on appropriate management expertise to develop the business.

3.4 The Council's Efficiency Plan outlines its reliance on savings made from service reviews, and it is assumed that this review will be the main contributor to achieving those. Should the Council not wish to approve Option A, then Council will need to consider during the next year how this level of saving can be delivered from elsewhere in the organisation. Inevitably, savings of this magnitude cannot be delivered without impacting upon frontline service delivery.

3.5 In considering the points raised throughout the review (visits to other LA's, the current performance of the service and the consultant's report); Option A is the preferred option out of those requested by Members for the following reasons:

- The significant savings generated to support the organisation's overall financial position.
- A more flexible approach to delivering services to the end user (i.e.: on trend programming, purchase of equipment, etc.).
- Greater investment in the development of staff.
- Possible improvement in the look and feel of the service (more commercial).
- Improved service delivery.
- Delivery timescale and appropriate management of risk.

3.6 Although the Council will retain some of the liability associated to the repair and maintenance of the facilities, the overall saving is both greater and more stable than the other options. As identified in Section 6 of the Business Options Appraisal (Risk Analysis), under Option A much of the financial, legal and operational risk sits with the operator and not with the Council. A clear specification and regular contract meetings are also essential in reducing the reputational risk to the organisation.

3.7 In order to implement Option A, a specification will need to be developed; outlining the Council's service delivery requirement, as well as the completion of a competitive tendering exercise through OJEU. This process will take approximately 16 months to complete. Providing savings in excess of £350,000 to be achieved in year one (2018/19) and increasing in subsequent years.

3.8 It is recommended that a working group be established to develop the specification, led by the Head of Service, with support from colleagues from the Corporate Leadership Team and leisure staff. In addition, it is recommended that a period of consultation takes place with all relevant partners and staff to help shape the specification of the contract. The following are indicative timescales for the work involved:-

Consultation with Members to define broad principles of specification	December 2016 – January 2017
Consultation with interested stakeholders and public	January 2017 – March 2017
Complete tender and report back to Members.	March 2017 – May 2017
Competitive tendering process	May 2017 – February 2018
Evaluation	February 2018 – April 2018
Report to Council	May 2018

3.9 With regards to the Sports Development Team, it is recommended that this service remains in-house to support the Council to continue to deliver its objectives set out in the Health and Wellbeing Strategy and to continue its work with schools, underprivileged sections of our communities and those who cannot and/or struggle to access our leisure facilities.

Health and Wellbeing Strategy priorities are:-

- To improve the wellbeing in areas of disadvantage.
- To improve the wellbeing of vulnerable groups.
- To tackle the wellbeing challenges associated with rurality.

3.10 It is recommended that a specification is developed and advertised as part of a competitive tendering process not later than 31st May 2017. This time will enable the relevant Officers to consult with relevant stakeholders and prepare a detailed specification. A further 12 months will be required to allow operators to tender for the contract and for Officers to assess the bids before reporting back to Council for final decision, no later than 31st May 2018.

3.11 As part of this process, there will be formal consultation with Leisure staff and the recognised Trade Unions regarding the proposed transfer. Given the estimated support services savings identified (£103,583) in the Options Appraisal, work will need to be carried out by the Corporate Leadership Team to determine how these will be implemented. These are not automatic savings and may require restructuring, transfer of posts under TUPE (Transfer of Undertakings, Protection of Employment) Regulations, so will also involve a period of formal consultation with relevant staff.

4 RISK ASSESSMENT

4.1 Legal

Reductions to local government funding oblige local authorities both to experiment with alternative forms of service delivery, seek to reduce overheads, and explore new means to raise revenue. Local authorities have the power to ‘outsource’ provision of services to private or third sector organisations under section 135 of the Local Government Act 1972.

Local Authorities may decide to outsource services as they see fit, either singly or jointly with another authority, providing that quality and value for money are maintained. Where local authority employees are transferred to a private sector provider as a result of contracting out, they must be covered by TUPE. Ultimately, it is for local authorities to decide how best to deliver their services. Whilst the risk to challenge on any decision cannot be ruled out, the steps in the report to consult on the shape and form of the service to be delivered by a new provider, help to mitigate that risk. Governance issues in terms of liaison with the new provider will need to be decided at a later stage.

The Procurement route outlined in the report is compliant with current legislation.

An Equalities Impact Assessment will also need to be completed to demonstrate that the new service provider can continue to provide a service which is both legally compliant and conforms with the District Council’s high expectations for equality of service provision. The legal risk currently is therefore medium to high.

4.2 Financial

The Council's Medium Term Financial Strategy (MTFS), reported to Council on 24th November 2016, makes it clear that the Council must make significant financial savings over the next 5 years if it is to be able to set a balanced budget, as required by law. The Medium Term Financial Plan (MTFP), contained within the MTFS shows that savings of £0.5m are required by 2018/19, rising to £1.2m in 2021/22.

The Council's Efficiency Plan, also shown within the MTFS, outlines the approach that the Council will adopt to achieve the required savings. It is expected that £0.75m of the savings will come from service reviews. As stated in the body of this report, it is assumed that this review will be the main contributor to achieving those. Only Option A can deliver the savings of the magnitude and timing that are required. Should Members not wish to approve Option A, then Council will need to consider where this level of saving can be sought from elsewhere in the organisation.

There are significant risks associated with the suggested savings figures. These include:

- Uncertainty about the cost of the outsourced service. The actual cost to the Council will not be known until the tender exercise has been undertaken. This financial risk is assessed as High.
- Potential increase in employer's pension contributions owing to the changed demographic of the reduced employee base. This risk cannot be quantified until employees who will leave the pension fund have been identified and discussions have taken place with the pension fund actuary. This financial risk is considered to be Medium.

Option A also offers the opportunity for further savings in support service charges. The Corporate Leadership will examine these, should Members approve the recommendation.

All of the options are high risk, but option A represents the least financial risk in terms of the Council's medium-term financial position.

4.3 Corporate

The Corporate Plan adopted by Members is pertinent to the recommendations in two key respects. Firstly, in recognition of the pressing requirement to make budget savings, the Corporate Plan incorporates the need to 'continue to seek efficiencies'. The recommended Option A is estimated to bring £476,000 annual savings to the District Council on what is known by comparison to be an unusually high Leisure Services budget provision. From the perspective of corporate finances, Option A is clearly the preferable option.

Secondly, the three priorities of the District Council as set out in the adopted Corporate Plan are (1) business growth and job creation, (2) affordable housing, and (3) market towns. The Corporate Plan also specifies the Council's wish to maintain performance for a clean and safe district. By making financial savings in a lower priority service (especially a high-spending lower priority such as leisure) the Council is better able to protect these services that Members and the public have identified as top priorities for the Derbyshire Dales, as well as front line clean and green services.

Option A is, therefore, the recommended option as it sits well with the Corporate Plan adopted by Members.

Option A is considered to present the lowest corporate risk. It would secure the future of leisure centres at a time when councils are becoming less and less able to sustain them within the traditional direct provision model. By avoiding the need to consider ceasing/closing leisure centre provision, Option A presents a sustainable way forward for leisure services in a way that none of the other options can offer.

5 OTHER CONSIDERATIONS

In preparing this report, the relevance of the following factors has also been considered: prevention of crime and disorder, equalities, environmental, climate change, health, human rights, personnel and property.

6 CONTACT INFORMATION

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7 BACKGROUND PAPERS

None

8 ATTACHMENTS

Appendix One: Business Options Appraisal produced by FMG Consulting Ltd

LEISURE SERVICE BUSINESS OPTIONS APPRAISAL STAGE 2

DERBYSHIRE DALES DISTRICT COUNCIL

A

REPORT

BY

FMG CONSULTING LTD

NOVEMBER 2016

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Appendices

1. Introduction

1.1 In December 2014 Derbyshire Dales District Council ('the Council') appointed FMG Consulting Ltd ('FMG') to undertake a business options appraisal for the future management of its leisure services, covering both leisure facilities and sports development services.

1.2 The Council's leisure service comprises of a sports development team and four leisure centres located in the towns of Ashbourne, Bakewell, Matlock and Wirksworth. The Council carried out an internal service review in 2013 to identify whether it should continue to provide the service and, if so, who is best to deliver the service.

1.3 The service review identified a number of service efficiencies and established that the Council should continue to provide a leisure service through the provision of the four facilities and the sports development team. FMG was then commissioned to carry out a business options appraisal to identify the most sustainable and economically viable operating model for the service in the future.

1.4 In October 2015 submitted its report to the Council which set out details of the different management arrangements available, including their advantages and disadvantages as well as the financial implications of each option. This also included a review of the Sports Development Service. A summary of the projected level of annual savings at that time are shown in the table below.

Table 1.1 - Summary of Stage 1 Options and Projected Financial Implications

Option	Leisure Facilities	Sports Development	Management Fee	Retained Cost	Total Net Cost to DDDC
Option 1	In-house	In-house	N/A	£730,129	**£730,129**
Option 2	Outsourced	In-house	£389,324	£82,049	**£471,373**
Option 3	Outsourced	Outsourced	£444,670	£35,000	**£479,670**
Option 4	New NPDO	New NPDO	£730,183	£35,000	**£765,183**
Option 5	In-house Community Asset Transfer	In-house	N/A	£445,635	**£445,635***

* Only if external organisations can be found to operate Bakewell and Wirksworth at zero cost

1.5 The report concluded that the most suitable management option for the leisure facilities and the Sports Development service would be Option 2 which outsourced the leisure facilities to an existing non-profit distributing organisation with the Council retaining the Sports Development function.

1.6 Following a presentation of the report to Council Members in February 2016, FMG was requested to carry out a second phase of more detailed work focussing on two short-listed options:

- Option 2 – Contract for the management of the facilities with an external organisation;
- Option 5 – Continued in-house management of the Arc and Ashbourne with community asset transfers for Bakewell and Wirksworth.

1.7 A third option was subsequently added to the list which represents a hybrid of both options, namely procuring a management contract with an external organisation for the operation of the Arc and Ashbourne and community asset transfers for Bakewell and Wirksworth. Under each option, the sports development service will continue to be managed on an in-house basis.

1.8 We have summarised the package options that are the subject of this stage 2 report in the table below.

Table 1.2 - Stage 2 Package Options

Option	Ashbourne Leisure Centre	Bakewell Swimming Pool	ARC Leisure Centre Matlock	Wirksworth Leisure Centre	Sports Development
Option A	Outsourced	Outsourced	Outsourced	Outsourced	In-House
Option B	In-House	CAT	In-House	CAT	In-House
Option C	Outsourced	CAT	Outsourced	CAT	In-House

1.9 Under each package option we have described how the option would work, set out the advantages and disadvantages, considered risk, implementation timescales, assessed market interest and developed financial projections for the future net cost of service. We have also included a number of case studies for outsourced management and community asset transfers and these are set out in Appendix A to this report.

1.10 Our approach to the development of this Stage 2 report has included the following aspects:

- Two additional site visits to each facility;
- Consultation with a number of external stakeholders (please see Appendix B for a list of the external stakeholders consulted with);
- Several meetings and a workshop with the Council's senior management team for the service to understand issues and challenges facing the service and identify opportunities for development;
- Carrying out a soft market testing exercise with some external leisure facility operators to gain feedback on the level of market interest in the potential opportunity;

- Purchased health and fitness membership latent demand reports for each facility in order to identify the potential number of additional members that could be attracted to join the facilities;

- Financial review of the leisure facilities and benchmarking of income and expenditure levels against industry averages;

- A review of the potential future structure of the sports development service;

- Financial modelling to estimate the potential future costs of the service under each package option.

1.11 The outcomes of the above work have been incorporated throughout this report to enable us to fully analyse the viability of the shortlisted options. The remainder of the report is structured as follows:

- Section 2 – Service Review and Development Opportunities;

- Section 3 – Package Option A;

- Section 4 – Package Option B;

- Section 5 – Package Option C;

- Section 6 – Risk Analysis;

- Section 7 – Sports Development Approach;

- Section 8 – Summary and Conclusions.

1.12 The next section provides a summary of the current cost of the service (2015/16) which the package options will be compared, benchmarks the performance of the facilities against industry averages and identifies potential development opportunities for the service.

2. Service Review and Development Opportunities

Introduction

2.1 This section sets out a brief overview of the current cost of the service, to enable comparison with the detailed analysis of the three options set out over the remainder of the report and also provides opportunities for the future direction of the service through identifying areas for growth to maximise efficiencies. These opportunities for growth are then applied to the package options (where relevant) later in the report.

2.2 The figures setting out the net direct cost of service include the sports development service and the following leisure facilities:

- Arc Leisure Matlock;
- Ashbourne Leisure Centre;
- Bakewell Swimming Pool;
- Wirksworth Leisure centre.

2.3 The service also makes a small annual contribution to the operating costs of Hathersage Pool however that facility is not managed by the Council and is outside the scope of this review so has been excluded from these figures.

2.4 This section also benchmarks key income and expenditure areas against leisure industry benchmarks for key performance indicators (KPIs). These benchmarks are taken from FMG's experience of public sector leisure facilities.

Net Direct Cost of the Service

2.5 The table below sets out the net direct cost of the service for 2014/15 and 2015/16.

Table 2.1 - Net Direct Cost of Service

All £	14/15	15/16
Total Income	-1,907,754	-2,071,886
Total Expenditure	4,314,337	4,285,265
Cost	**2,406,582**	**2,213,379**
Less Support Services	-453,287	-501,992
Less Capital Charges	-1,213,901	-813,424
FMG Adjustments	-95,494	-159,561
Net Direct Cost of Service	**643,900**	**738,403**

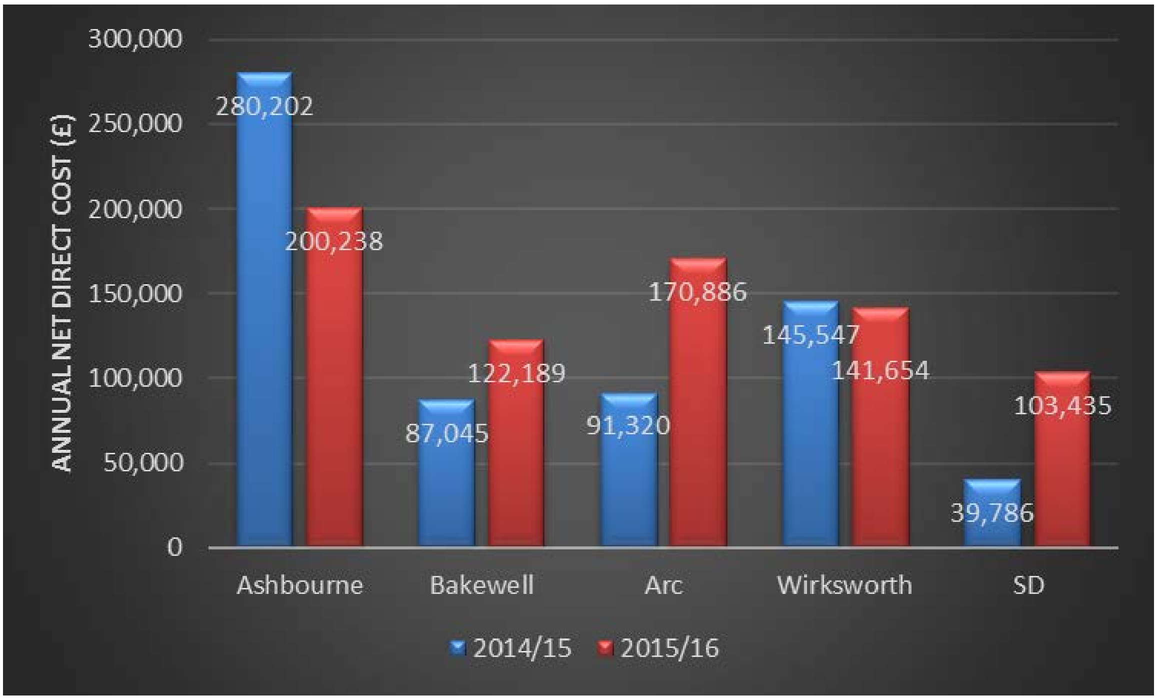
2.6 It can be seen from Table 2.1 that the net direct cost of the service in 2015/16 was £738,403, an increase of £94,503 on 2014/15 (net direct cost of £634,900). Although total income increased by circa £164k in 15/16, this corresponded with significant increases in operating expenditure, particularly employee costs (£124k) and premises cost (£121k).

2.7 It is important that the analysis is not 'distorted' by cost allocations such as support services (i.e. the Council's central overheads) or by inclusion of notional financing costs such as capital charges. Therefore, in order to get to the net direct cost of each element of the service we have discounted the support services and capital charges. Separate analysis of the potential savings that could be made from the support services budget under each option is set out later in this report.

2.8 We have also made an adjustment for the removal of IAS19 / FRS17 charges from the direct staffing costs (as these are notional accounting entries and not direct actual costs incurred).

2.9 Each element of the service is subsidised through annual Council revenue support. In the graph below we have summarised the net direct cost of each individual leisure facility and the sports development service.

Figure 2.1 - Annual Net Direct Cost Per Service Area



2.10 Ashbourne was the most expensive facility to operate over the previous two financial years, costing £200k in 15/16. It should be noted that the net direct cost of this facility in 14/15 was exceptionally high (£280k) because of the fire at the centre in July 2014 and resulting closure for circa 6 months. The three previous years' net direct costs before the fire varied between £193k and £249k and the budget for 16/17 projects a significant decrease in the net direct cost to £85k.

2.11 The Arc was the second most expensive facility to operate in 15/16 at circa £171k. This was higher than the previous 4 years that have varied between £91k and £175k although the budget for 16/17 projects a similar net direct cost to 15/16 of £174k. Income increased at the Arc in 15/16 from £794k to £831k however this was outweighed by increases in employee costs and, most significantly, premises costs. This appears to mainly be as a result in an increase in expenditure on repairs and maintenance and NNDR.

2.12 The net direct cost of Wirksworth was £142k in 15/16 which represents a minor decrease on 14/15 (net direct cost of £146k). Both income and expenditure have been extremely steady at Wirksworth over the last 3 years with very few variances although the budget for 16/17 projects a large increase in the net direct cost to £212k. This is as a result of projected increases in employee and premises costs and a projected decrease in income of circa £45k.

2.13 Bakewell Pool was the least expensive facility to operate in 15/16, costing £122k, although this was a significant increase on 14/15 which had a net direct cost of £87k. The increase was as a result of increases in employee and premises costs and a decrease in income from £309k to £281k (the only facility where a decrease in income occurred). Over the previous 3 years prior to this period, the net direct cost of Bakewell varied significantly between £79k and £179k. It is budgeted to increase to £150k in 16/17 because of further increases in staffing and premises costs although income is expected to recover somewhat to circa £300k.

2.14 The sports development service has a smaller revenue cost than the leisure facilities although there was a significant increase in the cost from £40k in 14/15 to £103k in 15/16. This is mainly because of an increase in employee costs from £86k to £114k and a decrease in income from £103k to £74k. in the previous 3 years prior to this period, the direct cost of the service varied between £55k and £100k. The budget for 16/17 contains a decrease in cost to £76k in 16/17.

2.15 All figures used throughout this report will be based on and compared to the 2015/16 actual financial performance rather than the 16/17 budget projections as the 15/16 numbers represent actual performance and there is no guarantee that the 16/17 budget figures will be accurate as they are purely projections.

Benchmarking Leisure Facility Performance

2.16 In order to establish signposts to the overall performance of the facilities, and how these may change under the different management options, we have compared the main income and expenditure areas for each of the sites with FMG and Sport England benchmarks. This allows us to understand the relative performance of each facility and where potential future savings could be made, depending on more detailed local investigations.

2.17 The benchmarks identified in the tables are national averages across a variety of different management models and facility types. Any major variances between the benchmarks for different management models and facility types are highlighted in the text below the tables.

2.18 It should be noted that performance against benchmarks should only be used as a guide to performance and should be considered alongside other factors because considering the numbers in isolation does not take into account site specific issues such as local competition, the operational philosophy, levels of integration of sports development and the demographics of an area.

2.19 The table below sets out the performance of the facilities against benchmarks for income from FMG's experience of the financial performance of public sector sport and leisure centres. The data used for the calculations is from 15/16 actual performance figures.

2.20 Any cells in the table with N/A or £0 entered means that the benchmark area is not applicable to that particular leisure facility.

Table 2.2 - Income Benchmarking

	Benchmark	Ashbourne	Bakewell	Arc	Wirksworth	Total
Income per SQM	£237 - £289	£210	£428	£199	£137	£201
Income per visit	£3.31 - £4.05	£3.04	£3.24	£2.81	£2.84	£2.93
H&F income per station	£7.2k - £8.8k	£5,766	£1,984	£5,547	£3,778	£4,882
H&F Members per Station	23 - 28	20	12	19	11	17
Swim income/ SQM water	£749 - 915	£780	£899	£802	N/A	£821
Sports hall income/ badminton court	£15.5k - £18.9k	£26,773	N/A	£20,722	£11,086	£18,878
Secondary spend/ visit	£0.27 - £0.33	£0.17	£0.14	£0.08	£0.07	£0.11

2.21 All of the facilities are performing below benchmark for income per square metre (SQM) with the exception of Bakewell, although this is likely to be an anomaly because Bakewell is such a small facility in terms of its square meterage footprint size. Income per visit is also below benchmark for all of the facilities which could be as a result of pricing policy, high numbers of concessionary users or the general lack of secondary spend opportunities in the facilities.

2.22 Number of members and amount of income generated from health and fitness is also below benchmark at all facilities. To some extent performance is slightly limited by the size and nature of the health and fitness offers within the facilities however greater income would still be expected to be generated from Ashbourne and the Arc in particular and, to an extent, Wirksworth.

2.23 Swimming income is approximately in line with the benchmark range although there is room for further improvement as high quality facilities can generate over £1k of swimming income per SQM of water. Sports hall income is performing strongly at Ashbourne and Arc. It is lower at Wirksworth although this is to be expected to an extent from a dual-use facility.

2.24 Secondary spend per visit is low across all facilities although this can be partly explained by the lack of high quality café facilities available. The exception is the Arc which has a café facility however the Council does not generate income directly from the café at the Arc due to the lease arrangements with the café operator which were dictated to the Council for VAT reasons at the time of developing and opening the centre.

2.25 The table below sets out the performance of the facilities against benchmarks for expenditure.

Table 2.3 - Expenditure Benchmarking

	Benchmark	Ashbourne	Bakewell	Arc	Wirksworth	Average
Percentage cost recovery	78% - 96%	73%	70%	83%	71%	71%
Subsidy per Visit	£0.71 - £0.86	£1.12	£1.41	£0.58	£1.18	£1.19
Staffing cost % of income	63 - 77%	70%	101%	57%	83%	71%
Utility cost/ SQM	£42 - 51	£31.80	£60.59	£50.10	£16.27	£37.50
Maintenance spend/ SQM	£21 - 26	£15.81	£19.98	£21.68	£7.48	£16.47
Cost of sales	49% - 60%	32.8%	44.8%	58.8%	32.4%	43.2%

2.26 The Council is generally performing below average for the percentage cost recovery compared to benchmarks (the higher the better for this KPI). This is also reflected in the subsidy per visit (the lower the better for this KPI) which is significantly higher than average for all facilities except for the Arc which is performing reasonably well at a subsidy of £0.58 per visit.

2.27 When examining individual cost areas, the main cost centres within leisure facilities are staffing, utilities and maintenance. In terms of staffing costs (measured as a percentage of income), the Council is performing in line with benchmark levels (the lower the better for this KPI) at Ashbourne and below the benchmark levels at the Arc (which is positive) but above average at Bakewell and Wirksworth. This is most likely to be linked to the lower amounts of income generated at these two facilities. It should be noted that the benchmark presented of 63% - 77% is a national average based on a variety of management models but a third party facility operator would expect this benchmark level to be closer to 50% - 60% or potentially even lower. Only the Arc is performing anywhere near this level.

2.28 Utility costs vary significantly between the facilities. Bakewell's utility costs seem high when take as a benchmark figure however this may be influenced by the fact that it is predominantly a swimming site (with associated high energy costs) and has limited dryside facilities in order to bring the ratio of utility costs per SQM down. Regardless, the energy costs at Bakewell should be investigated further. The cost of utilities at the Arc is also a significant concern as it is at the higher end of the benchmark range which should not be the case considering it is a relatively new facility that should be more energy efficient.

2.29 Maintenance spend is potentially on the low side compared to benchmark levels which could be seen as a positive thing as costs are being controlled although the Council should be careful that it is not making savings through reducing maintenance budgets which would have a negative long-term impact on the quality and lifespan of the facilities.

2.30 The cost of sales shows how much of the income generated from secondary spend such as merchandise and vending was spent on the stock. The benchmark is between 49% and 60% and it can be seen that the Council is performing well in this area statistically although in reality this is not the most important indicator for these facilities at this time as the amounts of income and expenditure being assessed are not significant because there are no cafes operated by the in-house team and the secondary spend is relatively low.

Summary of Benchmarking

2.31 The net direct cost of providing the leisure facilities and the sports development service increased significantly in 2015/16 from £644k (14/15) to £738k. Looking back over the three previous years between 2011 and 2014, it varied significantly between £679k and £860k, rising and falling between each year, rather than moving in any one direction / trend.

2.32 This demonstrates one of the key challenges facing the Council i.e. that it's current in-house management model is subject to outside market influences that are difficult to control (e.g. new competition emerging, building failures, utility tariff rates rising etc.) and therefore projecting and then consistently achieving year on year revenue budget savings is a difficult thing to do. All of the risk under the current model sits entirely with the Council.

2.33 Benchmarking of the performance of the leisure facilities shows that there are definite areas where improvements could be made, primarily in increasing income but potentially also in controlling expenditure. The question that the following sections of this report seek to answer is which management model is best suited to help the Council reduce the net cost of the service whilst improving service standards and quality for users.

2.34 We have set out below a number of service development areas that have been identified which could help reduce the net cost of the service.

Service Developments and Improvements

2.35 In this section we provide a number of opportunities to improve the financial position of the service. An important part of this work has been the work with the senior management team to help develop 'real world' bottom line improvements that the in-house team could implement and that potential external operators would also pursue through a procurement process. The benchmarking review has identified opportunities for improvement which have helped to focus our work in this section, in particular health and fitness use and income which is below our benchmark range.

2.36 This work has also been informed through:

- A recent latent demand study on health and fitness memberships;
- Industry best practise and our team's experience of working on similar projects around the country;
- One of our consultant's experience and expertise from successfully bidding for and operating leisure contracts over the past fifteen years.

2.37 The following areas have been considered and are summarised below. These improvements are then applied directly to each package option in the later sections:

1. Health and Fitness Development;

2. Aquatic Development;

3. Community Engagement and Sports Development;

4. Organisational Structure;

5. Environmental Performance;

6. Other capital development opportunities.

1. Health and Fitness Development

2.38 The health and fitness use and income is crucial to the future viability of the service and therefore this should be given the highest priority.

2.39 A latent demand study carried out in September 2016 by the Leisure Database Company (TLDC) identified potential demand for 919 additional members across the District.

2.40 It is not uncommon for operators to go some way beyond these latent demand estimates as investment in better quality services and facilities can lead to migration from competitors as well as helping to grow the overall market.

2.41 In order to achieve increased performance in health and fitness the following areas for development have been suggested:

- To convert the community room at Ashbourne Leisure Centre into a modern, group exercise and functional training space;
- 'Re-launch' health and fitness following investment;
- Introduce personal training;
- Appointment of a Health and Fitness Co-ordinator;
- Develop a corporate and club membership offer (including new Premier Inn customers next to Arc Leisure Centre);
- Review the direct debit collections costs.

2.42 There is also the potential of developing the climbing offer through better promotion and via a similar direct debit model to that employed for swimming lessons.

2.43 The overall objective of the suggested developments, is to generate additional memberships closer to the latent demand.

2. Aquatic Development

2.44 The performance of the current swimming programme is at the lower end of our market benchmark range and there is therefore considered scope for improvement given the reasonably condition and location of the current provision.

2.45 From our observations of the current operation we would recommend:

- The development of a new aquatics plan;
- Appointment of an aquatics development co-coordinator across the service;
- New swimming lesson software to improve administration, marketing and communications;
- New Learn to Swim programme.

2.46 The appointment of a swimming co-ordinator is crucial in our view to improve performance; this appointment should be 'multi-tasking' with ability to teach as well as develop plans in order to make it a cost effective proposition.

3. Community Engagement and Sports Development

2.47 The development of a community engagement plan should assist both sports development and operational staff to focus on key opportunities and partnerships. The sports development officer has proposed a new initiative to improve bottom line performance and we have also suggested the development of a gymnastics programme.

2.48 The sports development costs have fluctuated over the past few years determined by external grant funding providing short term projects and much of what has been generated in the past has been 'in and out' from a financial perspective, this is common in many sport development services across the sector. Therefore, a plan that can improve the revenue streams directly into sports development in the future has been explored.

2.49 In order to achieve this the following areas for development are suggested:

- Introduction of 'Born to Move';
- The development of a new gymnastics programme.

4. Organisational and Structure Development

2.50 Staffing costs in 2015/16 were circa £1.7m across the service which represents by far the largest cost. The benchmarking of staffing costs as a % of income highlighted that Arc Leisure Centre was the only site, at 62%, operating at or below our market range of 63-77%. It is important to note however that some third sector and private operators are operating at, or below 50%.

2.51 Therefore, improvement and investment opportunities that increase footfall, without increasing staffing costs significantly are required in order to make the service more efficient.

2.52 The delivery of some of the improvements identified in this section will require specialist development staff, these are funded within the plans and include aquatics, health and fitness, and gymnastics.

2.53 The current senior management structure includes an Operations Manager, a Business Development Manager, two Facility Managers (each with two sites), and a Sports Development Manager. There has also been a recent appointment of a Marketing Manager.

2.54 In the scenario where only Arc and Ashbourne Leisure Centres are retained by the Council this structure could be considered top heavy.

5. Environmental Performance

2.55 The benchmarking analysis suggests that improvements can be made in the management of energy across the facilities, in particular at Arc Leisure Centre which currently costs £50 per SQM against a market benchmark of £42-£51 per SQM.

2.56 Bakewell also has a very high cost at circa £61 per SQM and should be investigated further (although this high benchmark rate may be slightly artificial as it is a very small building which is mostly wet facilities with higher utilities costs which can skew the benchmark analysis to an extent).

2.57 During the site visits and subsequent meetings, it has become evident that there is an opportunity to improve the management of energy. There is scope to make some significant savings through the development of an energy system that challenges staff to save energy. This should include a representative from each site and the marketing manager.

2.58 An example ten step approach is suggested overleaf which could be adopted quickly with clearly set targets for sites to achieve a minimum of 5% annual consumption savings.

1. **Derbyshire Dales Energy Commitment**
   The leisure service will establish a clear policy statement of our commitment to reduce carbon, and report back to staff and the Council regularly on progress against targets. We will set up a 'environmental service improvement team' (task force) with staff representatives from across every site, and seek Council expertise to chair / lead the Group with senior management input.

2. **Provide an incentive**
   - *Launch a competition between sites/service areas*
   - *Promote the morale and social responsibility which we all share, for future generations!*
   - *Develop environmental KPI's – and report against them (minimum 5% reduction)*

3. **Reach everyone**
   Through increased marketing resources, develop a PR Plan and communication strategy to reach everyone / relevant for the whole of the organisation. Introduce environmental representatives at each centre and train staff. Communicate environmental policy objectives, posters, reminders, newsletters

4. **Monitoring Progress**
   Weekly Monitoring System in Place, and group feedback. Managers to react quickly to any under performance against target in any area of consumption. Feedback shared with staff at site meetings, standing agenda item on staff meetings. There are 86,400 seconds in a day, we will use 1,800 each day to improve the environment!

5. **Positive Feedback**
   Communicate positive outcomes to staff, small wins as well as big!

6. **Provide Resources**
   Provide investment opportunities including improved monitoring systems, and controls with expertise provide training, meeting group, ensure maintenance systems are robust.

7. **Be Imaginative**
   Provide environmental champion, with collective fresh ideas. Train staff to understand the topic, leadership role, enthusiasm, understand impact

8. **Keep the Momentum**
   Set targets, set new targets, energy / environmental team, milestones, new ideas, share ideas. Benchmarking against other high performing organisations in the sector.

9. **Continuous Improvement**
   Review performance and through regular meetings and report to Senior Officers and Members on progress.

10. **Empowerment: move towards environment objectives**
    Develop a 'caring about carbon' message via the web site, sharing energy saving initiatives with customers.

6. Opportunities for Remodelling Existing Indoor Provision

2.59 In addition to traditional 'core' swimming and sports provision, commercial opportunities can be explored to help with improved use and income in traditional sports and swimming facilities. Over the past ten years a number of these developments have become popular additions to leisure centres.

2.60 The cost of remodelling indoor provision can range from small scale indoor play areas of c£100,000 to Ten Pin bowling and Spa facilities which can cost over £750,000 including building and equipment costs.

2.61 There are a number of options for remodelling being used across the sector to drive increased footfall and income. We have provided an overview of the most popular developments linked to traditional leisure and sports centres from our experience in Appendix C. These include:

- Health and Fitness;
- Clip and Climb;
- Indoor Adventure Soft play;
- Ten Pin Bowling;
- Toning / Wellbeing Suite;
- Free Running Areas;
- Trampoline Parks;
- Spa Express Thermal and Treatment Destination;
- Indoor/Outdoor BMX / Skate Park;
- Functional Fitness enhancement;
- Outdoor High Ropes;
- Commercial 3G Pitches.

2.62 Whilst we have not specifically identified any further improvements at this stage we noted during the site visit the potential to extend onto the rear of the building at Ashbourne Leisure Centre.

2.63 A number of the developments listed above could be developed but would require further detailed analysis in order to provide a recommended option.

Summary of Potential Service Developments

2.64 In this section we have provided a number of development opportunities to improve bottom line performance. All of the development proposals could result in a bottom line improvement of for the Council, whether implemented by the in-house team or under one of the alternative management models being considered.

2.65 We have provided more detail regarding these investments and the potential impact on income and expenditure under each package option over the following sections of the report.

2.66 Section 3 sets out an analysis of the implications of Option A for the Council.

3. Package Option A

Introduction

3.1 Under this package option, all four leisure facilities will be outsourced to a leisure operator via a competitive tender following EU procurement legislation. The Sports Development service remains in-house with the Council.

3.2 This section sets out the implications of Option A including the following areas:

- Description of the option;
- Advantages and disadvantages;
- Legal Considerations;
- Potential market interest;
- Financial implications;
- Implementation timetable;
- Summary of Option.

3.3 This option was known as ‘Option 2’ under the Stage 1 options appraisal work carried out by FMG.

Option A Description

3.4 This option would involve the Council no longer managing the four leisure facilities directly. Instead, the Council would manage a competitive tender process following EU procurement regulations which would result in a specialist leisure management operator winning a contract to manage the facilities for a fixed length of time.

3.5 The key characteristics of this option would be as follows:

- The Council would advertise an opportunity for leisure operators to bid for the contract through a competitive procurement process. The Contract Term would typically be ten to fifteen years;
- Leisure operators would have the opportunity to bid for the contract and the Council would evaluate the bids to select a preferred bidder based on a combination of the bidders’ service proposals and financial offer;
- The Council would be the "client" and would manage operations under a lease and Contract which would include a detailed Services Specification and Performance Monitoring System. This option does not involve the Council selling the facilities and, at the end of the Contract Term, the facilities would revert back to the Council (if it did not wish to procure another Contract);

- The Services Specification would be a Schedule to the Contract and would set out the Council's requirements in respect of the delivery of the management services. The Services Specification would allow the Council to retain some control over certain key issues e.g. concessionary pricing, protected programming, minimum opening hours etc.;

- The operator would have to manage the facilities in line with the Council's Services Specification requirements and, in exchange, would offer the Council a fixed annual price ('Management Fee') for the Contract Term. This would either be a fixed annual payment from the Council to the operator or a guaranteed annual payment from the operator to the Council (depending on the bidders' business plans established through the tendering process);

- The operator would be required to continue operating the facilities in a similar way to that which the Council does e.g. concessionary pricing schemes, pay and play access, complying with the lease and joint-use requirements at Wirksworth Leisure Centre etc. They would look to improve the financial position through measures such as those summarised in Section 2 of this report and by virtue of VAT and NNDR savings that their structures entitle them to (which the Council cannot access under an in-house model);

- The operator would undertake management of the facilities, gathering all income generated by the facilities and being responsible for the majority of costs incurred by the facilities;

- Typically, the Council would retain some responsibilities and risks (usually in respect of structural lifecycle replacement of the buildings and utilities tariff increases) and incur costs in respect of these responsibilities. These risks can be transferred to the operator but this typically comes at a risk price premium (which would be established through the procurement process);

- Staff are employed by the operator via a transfer under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE);

- The Council would monitor the operational performance and service standards delivered by the operator, such that any failures to perform may be subject to financial deductions and could lead to termination of the Contract;

- The operator would use its own central support costs (e.g. finance, HR etc.) and will not need to use those of the Council, which potentially has an impact on the central resources of the Council.

3.6 This option does not involve the transfer of the facilities to commercial private sector operators such as David Lloyd or Virgin Active etc. Instead, there is an established market of specialist leisure operators that focus on managing facilities in the local government leisure facility market e.g. Places for People, SLM, GLL, Fusion, Parkwood, 1Life etc. These organisations are generally structured in two ways:

- A 'Hybrid' Not for Profit Distributing Organisation (NPDO) management model which is a legal vehicle with charitable objectives, which can access discretionary National Non Domestic Rates (NNDR) benefits and may access Value Added Tax (VAT) benefits from the sporting exemption. It is not a charitable company and not recognised by the Charity Commission so cannot access Mandatory NNDR Relief;

- A charitable NPDO model, which can attract both mandatory rate relief and VAT benefits with regard to the sporting exemption on large proportions of their income.

3.7 Further details of these organisation types are set out below.

Hybrid NPDOs

3.8 Following the introduction of Compulsory Competitive Tendering (CCT) to sport and leisure services in 1989, a number of private sector companies were set up to respond to the opportunities of CCT in operating and managing public leisure facilities. Since then, a number of companies have emerged to operate in the public sector sport and leisure market, managing facilities and services on behalf of local authorities under contract.

3.9 Most of the established leisure management contractors offered a 'Hybrid' NPDO management model. This model is a legal vehicle with charitable objectives, which can access discretionary NNDR benefits, but is not a charitable company and not recognised by the Charity Commission.

3.10 Some of these contractors also now offer charitable NPDO models, which can attract both mandatory rate relief and VAT benefits with regard to the sports exemption on large proportions of their income. This means that they are competing on a 'level playing field' (in terms of fiscal benefits) with the other charitable Trusts in the market that are bidding for leisure management contracts (see below).

Charitable NPDOs

3.11 There are many existing charitable leisure trusts that have been set up by local authorities and, once established, have started bidding for new contracts in other local authority areas. Many of these organisations also operate cultural facilities such as community halls and theatres and some were specifically set-up to offer a full range of leisure, cultural and green space services.

3.12 This option to use an existing charitable NPDO provides the benefit of sharing risks across other leisure contracts that the NPDO holds and their associated economies of scale (similar to the Hybrid Trust option but sometimes on a smaller scale).

3.13 The existing charitable NPDO is able to achieve VAT and NNDR savings. The ability for existing charitable NPDOs to generate significant capital funding, without a track record, is sometimes more limited and therefore capital funding from local authorities (for example prudential borrowing) is likely (and normally cheaper to finance) if major capital investment is required. It should be noted that the use of prudential borrowing for funding major works is common place now.

3.14 The ability to access external funding grants is often cited as an advantage of the NPDO model (especially if it is registered as a charity). There may also be an opportunity for greater staff involvement in the management of the services under an existing charitable NPDO (depending on the legal structure of the organisation e.g. Co-operative or Community Benefit Societies) which may allow for staff to be shareholders or members in the organisation.

3.15 From the Council's perspective, there is limited difference between the two organisation types as they are both procured through a competitive tendering process. The ultimate contractual terms and conditions are likely to be very similar no matter the structure employed by the successful bidder.

3.16 Under both forms of outsourced management, there is perhaps greater protection from local government funding cuts (particularly for loss-making facilities being cross-subsidised by more profitable facilities within a portfolio) than under an in-house model. All four facilities would be contracted as a package for the operator to manage throughout the life of the Contract and the operator cannot therefore cannot cherry pick the more profitable sites.

3.17 Case studies from local authorities that have contracted with external leisure management organisations are included in Appendix A.

Advantages and Disadvantages

3.18 A summary of potential advantages and disadvantages of this option is set out in the table below.

Table 3.1 - Package Option A - Advantages and Disadvantages

ADVANTAGES	DISADVANTAGES
Operator likely to optimise opportunities for income generation and economies of scale against social outcomes.	The Council loses direct day to day control over the services and manages through a lease and contract instead.
The Council is likely to be able to transfer considerable operational risk over to the operator.	Operator may prioritise commercial rather than social objectives e.g. profit (unless stipulated in the contract).
Broader expertise and experience of the operator.	Potential loss of community focus (unless stipulated in the contract).
Access to capital finance to provide investment into facilities and services (noting potential for introducing this in the contract).	Staff are transferred to the operator under TUPE, although pension benefits may be comparable only (unless Admitted Body Status required in the contract).
The Council can enter into a long-term contract with performance guarantees.	Capital finance typically more expensive than that provided by the public sector.
The Council has greater certainty of cost in relation to the on-going revenue subsidy or surpluses made.	Requirement to procure any contract in accordance with EU procurement law.
Potential benefits from additional external funding opportunities (if utilising NPDO / charitable structure).	Sports development team will have to liaise with an external organisation regarding new initiatives and access to facilities (although this would be mitigated by drafting sports development requirements into the Services Specification).

ADVANTAGES	DISADVANTAGES
Can access NNDR and VAT benefits (if using a charitable / NPDO structure).	
The Council has the opportunity to make savings in its central support costs.	
Ensures a consistent quality of service across the District regardless of where residents live.	

3.19 There are many advantages and disadvantages of this option as summarised in the table above. The primary advantages for the Council relate to the ability to transfer risk to the operator whilst making revenue savings and gaining greater budget certainty over a 10-15 year period. It will also ensure a consistency of service quality across the District (which may not be delivered through Options B and C).

3.20 The key concerns for many local authorities in regard to this option are that it could result in a loss of community focus / greater commercial focus and the day to day control over managing the facilities is transferred (although these disadvantages can be mitigated to an extent by following best practice in drafting the contractual documents and positive on-going management of the contract).

Legal Considerations

3.21 Procurement of works, supplies and services by the public sector is constrained by EU regulations which are implemented into UK legislation by way of regulations. The most recent regulations are the Public Contracts Regulations 2015 and Concession Contracts Regulations 2016 which set out the procurement requirements for different types of public sector contracts, and while these regulations may exclude certain types of contracts from their regime, there remain overriding considerations that need to be taken into account to ensure that the EU principles of transparency, equal treatment, non-discrimination and proportionality are at all times maintained.

3.22 The Regulations require certain contracts to be advertised in the Official Journal of the European Union (OJEU) and follow the procurement rules set out in the Regulations where the procuring entity is a 'contracting authority'; the contract is a public works, services or supplies contract; and the estimated value of the contract is above the specified financial thresholds.

3.23 Certain social and other specific services, including recreational, cultural and sporting services (i.e. leisure contracts), which have an estimated value in excess of £589,148 are however subject to "light touch" regulation only. This means that the full procedural requirements under the Regulations do not apply.

3.24 When procuring above threshold light touch contracts, local authorities must:

- Publish a contract notice in the OJEU;
- Publish a contract award notice in the OJEU;

- Follow a procedure which ensures compliance with the EU Treaty principles of transparency, equal treatment and non-discrimination.

3.25 Light touch contracts which fall below the relevant financial threshold will not typically be subject to similar rules, on the basis that there is not likely to be "cross-border interest" in those contracts. This is unless there are concrete indications that such interest does exist. In any event, in view of local authorities' requirement to achieve value for money, it would be advisable for below threshold contracts to be procured in accordance with the Treaty principles outlined above.

3.26 A key legal issue that will need to be resolved before the Council could deliver this option would be to obtain the agreement of the Anthony Gell School Foundation (‘the Foundation’) to assign the Council’s lease for Wirksworth Leisure Centre which runs until 28th March 2079.

3.27 Consultation has been carried out with representatives from the Foundation and they have stated that their requirements to consider agreeing to any assignment of the lease to another organisation would depend on the following:

- School-use must continue as per the current arrangements;

- The terms of the original Joint-Use Agreement between the Council and the School (dated 3rd March 2000) would need to be incorporated and delivered for at least a 10-year period in the first instance, with the ability to renew and extend (the latest Joint-Use Agreement has expired and no extension has been signed although all parties continue to work to its principles);

- There would need to be a need for due diligence checks regarding any other proposed operator;

- The financial arrangements in relation to rental, management of the artificial turf pitches and operating costs such as repairs and maintenance, utilities etc. would need to continue as per the current agreement;

- The standards to service, repairs and maintenance etc. would need to be to the same high standards in accordance with the lease.

3.28 We do not anticipate that these terms from the Foundation would be a barrier to proceeding with this option as the dual-use arrangements in place at the facility are very standard to other dual-use leisure facilities around the country and the operators in the market are very used to complying with these sorts of arrangements (the soft market testing feedback from operators set out later in this section evidences this).

3.29 There is no intention under this option to restrict or alter the schools’ access to the sport and leisure facilities on site or to negatively impact on the financial arrangements currently in place between the Foundation and the Council.

3.30 The only potential issue with the terms set out by the Foundation is the potential point about the agreement being able to be renewed and extended beyond a ten-year term. Whilst most leisure management contracts are typically 10-15 years in length, any extension clauses included would need to be subject to the agreement of all parties (the Council, the Foundation and the Operator) and an extension could not be arbitrarily imposed on any of the parties.

Market Interest

3.31 In order to establish whether potential operators in the local authority leisure management market would be interested in bidding for the opportunity, we have carried out a soft market testing exercise with the major operators in the industry. This involved issuing a short information document containing background information on the facilities and inviting the operators to provide their views and feedback on the following key issues:

- Interest in bidding for the opportunity if the Council selects this option;
- Views on the potential splitting of the facility packages from 4 facilities (Option A) to 2 facilities (Option C);
- Feedback on the requirement to work within dual-use arrangements (i.e. at Wirksworth) and their experience of doing so;
- Experience of complying with Sport England grant funding conditions (i.e. in relation to previous funding received at Wirksworth);
- Indicative levels of financial savings that they have provided other similar local authorities;
- Any other comments / issues they would like to raise.

3.32 The following organisations were issued with the information document and asked to respond in writing:

- Fusion Lifestyle;
- Parkwood Leisure;
- Places for People Leisure (PFP);
- Serco Leisure;
- Sports and Leisure Management (SLM);
- 1Life;
- Greenwich Leisure Ltd (GLL).

3.33 The table overleaf sets out a summary of the responses to the 6 questions posed in the information document. Seven of the eight operators issued with the document responded in writing.

Table 3.2 - Soft Market Testing Response Summary

Question / Issue	Summary of Responses
Interest in bidding for the opportunity if the Council selects this option.	• All respondents are interested in the opportunity and should have the resources to bid next year if it comes to the market. • The market is very busy and this should be taken into consideration for any timelines for the procurement, providing adequate timelines for responses, mobilisation periods etc.
Views on the potential splitting of the facility packages from 4 facilities (Option A) to 2 facilities (Option C).	• The preference from every operator is for all 4 sites to be packaged together as they could offer better value to the Council but there would still be interest (although reduced) if only the Arc and Ashbourne facilities were part of the package.
Feedback on the requirement to work within dual-use arrangements (i.e. at Wirksworth) and their experience of doing so.	• All operators have experience of dual-use agreements across a range of contracts and included examples of their experience in this area. • Operators have identified the importance of generating a strong relationship with the School to ensure successful operation such as regular meetings and involvement on strategic partnership boards etc. • Ensuring clarity of roles and responsibilities in terms of clearly defining responsibilities for payments, maintenance, utilities, cleaning and lifecycle arrangements between the operator and the school prior to the contract start date was highlighted as being important to ensure a successful working relationship.
Experience of complying with Sport England grant funding conditions (i.e. in relation to previous funding received at Wirksworth)	• All operators have experience of capital grant funding with Sport England, with some of the operators inheriting a number of pre-existing grant funding arrangements and relevant examples from other contracts provided. • Operators also detailed their experience of dealing with Sport England funding for initiatives such as This Girl Can etc.

Question / Issue	Summary of Responses
Indicative levels of financial savings that they have provided other similar local authorities	• The operators detailed a number of ways to make savings for the Council. The operators believe that income can be increased when analysing the catchment area, especially as a result of capital investment in the facilities. Staffing (currently at circa 80% of income) was noted as being particular high. Savings were also highlighted through NNDR, VAT and utilities. • Examples were provided of significant savings being generated on other contracts for local authorities. • The operators were understandably cautious of committing to figures at this stage without more information. All operators suggested that they would deliver revenue savings to the Council however three of them did not want to state figures at this stage. Two of the bidders estimated savings for the Council at circa £500k per annum and one of the bidders suggested that they could reduce the subsidy for the Council to zero cost.
Any other comments / issues they would like to raise	• No major comments provided except for requesting the opportunity to meet with the Council and tour the sites in order to understand the facilities and the Council's aspirations in more detail.

3.34 The main conclusions from the soft market testing exercise are that there would be strong market interest in the opportunity and that the operators would prefer the package to include all four facilities. However, only including two facilities within the contract (as per Option C) would not necessarily mean that operators would not bid.

3.35 There were no concerns about working with dual-use restrictions and grant funding terms and conditions as would be necessary at Wirksworth. The level of proposed savings suggested by the operators (although only very high level at this stage as operators have not seen the sites or detailed current performance) was potentially significant at circa £500k per annum or higher. The feedback from the operators is generally very positive for this option.

Financial Implications

3.36 This section sets out the financial implications of this option, taking into account:

- Structural Savings;
- Opportunities for Savings and Growth;
- Central Support Costs;
- Implementation Costs.

3.37 Each area has been analysed in turn in order to identify the total estimated financial impact on the Council when compared to the 2015/16 actual figures which was a net direct cost to the Council of £738k (as summarised in Section 2 of this report). The full calculations for the savings under each option are set out in Appendix D.

Structural Savings

3.38 Operators in the leisure management market are generally structured as charities or NPDOs, allowing them to gain efficiencies on NNDR and VAT that can be passed onto the Council. The details regarding these savings are set out below.

National Non Domestic Rates

3.39 Non-Domestic Rates is a tax on properties not in domestic use, e.g. hotels, offices, public houses, schools and shops. The amount payable is calculated by multiplying the Rateable Value of the property by the National Rate Poundage set by the Government.

3.40 Under the Local Government Act 1988, different legal entities are entitled to mandatory (80%) or discretionary (up to 100%) relief from the payment of National Non-Domestic Rates. Discretionary relief is down to the policies approved by each local authority.

3.41 The requirements for obtaining NNDR relief require the property to be eligible for relief but other tests include the Contractor holding a lease / licence (being in rateable occupation) for the premises and that it has control over the staff managing the services from the property.

3.42 The level of discretionary rate relief awarded would be considered by the Council on a case by case basis. We have taken the more prudent position of assuming that no discretionary rate relief would be awarded however eligible charities would automatically receive mandatory rate relief. The majority of operators in this market have charitable structures that are eligible for mandatory rate relief.

3.43 From April 2013, the Department for Communities and Local Government's (DCLG) Business Rates Retention Scheme implemented following the Local Government Resource Review had a significant impact on the actual savings that awarding NNDR relief delivers for local authorities. Under the current arrangements, which began in April 2013, the mandatory and charitable reliefs that eligible bodies currently receive will be retained, however any changes in NNDR costs between baseline re-sets (the first re-set period will be for 7 years from April 2013 to 2020) will be shared 50:50 between central and local government.

3.44 This means that the Council's baseline (the amount it receives from NNDR receipts) is set from April 2013 until April 2020 and if the Council subsequently awards further rate relief to other organisations during this period it will have to meet 50% of this cost. Therefore, whilst the operator's charitable structure may result in it receiving 80% mandatory rate relief, the saving to the Council will actually only be 40% in this circumstance (i.e. 50% of 80%).

3.45 As a result of this legislation, we have included the following NNDR saving levels within our financial model (N.B. the full saving could potentially be realised from 2020 onwards after the first baseline re-set). They are based on the 2015/16 actual amounts for NNDR.

Table 3.3 - Assumed NNDR Savings to the Council

	Existing Trust
Total NNDR bill (£)	£279,039
Saving to bill payer (%)	80%
Revised NNDR bill (£)	£55,808
Saving to bill payer (£)*	£223,231
Saving to Council (%)	50%
Saving to Council (£)	£111,616

* Saving passed onto the Council through a reduction in the Management Fee

3.46 The savings from NNDR under this option, assuming the company operating the facility would have charitable status, would be £111,616 per annum.

Value Added Tax

3.47 As a general principle, the status of the purchaser of a service will determine the amount of VAT that can be recovered by that purchaser on its costs of providing the service.

3.48 A common principle is that the purchaser can claim VAT on the costs of providing its services in the same percentage of the VAT it charges on its services. For example, where a purchaser provides services, 90% of which are subject to VAT, then the VAT that it pays on purchases to provide the service can be recovered at 90%; thus the purchaser will have a 10% non-recoverable VAT cost.

3.49 A charitable Trust / NPDO does not have to charge VAT on its leisure services (except retail and catering services), whereas the Council has to charge VAT on most of its services, although swimming lessons for example are exempt. This financial benefit will be passed to the Council by way of an improved annual Management Fee.

3.50 However, where the charitable trust / NPDO cannot reclaim all the VAT on expenditure (their irrecoverable VAT) they will add this back to the contract price (Management Fee) to the Council.

3.51 The indicative VAT benefit associated with this option is set out in the table below.

Table 3.4 - VAT Savings

	External NPDO
Additional VAT payable (benefit) on Income compared to Council	-£247,738
Irrecoverable VAT incurred on Purchases (dis-benefit)	£149,700
Net VAT adjustment/(saving) from Council Base	**-£98,038**

3.52 It can be seen that the operator's NPDO structure means that it does not have to account for VAT on a significant proportion of sport and leisure income, whereas the Council has to pay VAT on certain services, and therefore charging the same prices would mean the NPDO would keep more of the income than the Council is able to do so by circa £247,738 per annum.

3.53 The general principle of recovering the VAT paid for supplies and services is that it can only be reclaimed in the same proportion as the income that is subject to VAT for services provided to users. In calculating the "VAT recovery rate" it is necessary to establish the income that is subject to VAT plus also taking into account the income from the management fee, which is also subject to VAT.

3.54 The financial model calculates that the VAT recovery rate for the Council is 100% but the existing NPDO is 19% which means that the VAT on expenditure which is incurred will be partly recovered in these proportions. The recovery of VAT by an NPDO is normally circa 10% but with the management fee (operating subsidy) this improves the recovery rate significantly.

3.55 The table above sets out the amount recoverable compared to the base Council position. It can be seen that the NPDO cannot recover circa £149,700 which will need to be added to the cost of providing the leisure service under this option. Despite this, there is still a considerable net benefit of circa £98,038 per annum under this option.

Opportunities for Savings and Growth

3.56 We have reviewed the sites to identify a number of opportunities for the leisure facilities. The table below provides the financial impact of the adjustments that we believe an operator would include if they were bidding for this contract.

Table 3.5 – Adjustments to Net Direct Cost

All £	2018/19	2019/20	2020/21	2021/22	2022/23
Increased Membership Income	- 255,850	- 319,812	- 319,812	- 319,812	- 319,812
Increased Swimming Income	- 143,520	- 179,400	- 179,400	- 179,400	- 179,400
Gymnastics Income	- 99,263	- 124,079	- 124,079	- 124,079	- 124,079
Secondary Spend Income	- 61,374	- 73,649	- 73,649	- 73,649	- 73,649
Swimming Staffing Expenditure	45,000	45,000	45,000	45,000	45,000
Gymnastics Staffing Expenditure	74,118	74,118	74,118	74,118	74,118
Gymnastics Non-Staffing Expenditure	2,500	2,500	2,500	2,500	2,500
Saving on Utilities Expenditure	- 74,384	- 74,384	- 74,384	- 74,384	- 74,384
Increase in Marketing Expenditure	51,157	53,896	53,896	53,896	53,896
Additional Irrecoverable VAT	13,664	15,102	15,102	15,102	15,102
Additional Central Overheads, Profit and Contingency	44,801	55,755	55,755	55,755	55,755
Secondary Spend Cost of Sales	30,687	36,824	36,824	36,824	36,824
Total	**- 372,465**	**- 488,129**	**- 488,129**	**- 488,129**	**- 488,129**

3.57 It can be seen we are projecting that an operator would project operational savings of circa £488k from year 2 (2019/20) onwards. Analysis of the adjustments made is set out below. Any capital investment highlighted below is funded through debt and costed for in the overall financial model set out at the end of this section.

Memberships

3.58 The latent demand study carried out projected that there are a potential additional 919 members across the District. It is not uncommon for operators to go some way beyond these latent demand estimates as investment in better quality services and facilities can lead to migration from competitors as well as helping to grow the overall market.

3.59 We have incorporated the conversion of the 919 individuals into members as part of the operator's membership income projections and recommended a number of changes that would be implemented (see Section 2). This results in an additional £320k per annum of income (80% applied in Year 1). In order to help facilitate this a £30k capital investment to convert the community room into a group exercise and functional training space has been incorporated as well as a full re-equipping of the fitness facilities across all four sites.

3.60 The Council is currently considering purchasing new equipment for all of its fitness facilities however a provision for future fitness equipment expenditure by the operator would still be required in this option as the operator would have the responsibility for replacing this equipment on an on-going basis. Any saving that the Council achieves to its current cost of service from its purchase of new equipment would be reflected equally in the future costs of service under this option too.

Swimming

3.61 Based on the improvements set out in Section 2, we have projected a £179k increase in swimming income (mainly as a result of increased swimming lessons). To fund this, we have allocated £45k per annum of additional staffing costs (aquatics development coordinator and teaching costs). We have estimated that a capital investment into equipment of £36k is required for this programme offer.

Gymnastics

3.62 We have projected that a new gymnastics programme would bring in £124k of income and have included £74k per annum of staffing expenditure and £2.5k per annum of equipment expenditure. See Section 2 for further details. We have estimated that a capital investment into equipment of £21k is required for this programme offer.

Secondary Spend

3.63 Having analysed the secondary spend level (mostly retail and vending profit), we have included an increase from £0.09 per visit to £0.20 per visit to bring the income closer to (but still below considering the lack of a café offer) industry averages. We have also incorporated cost of sales on this income at 50%.

Utilities

3.64 Expenditure on utilities is currently high so we have incorporated a 20% reduction based on trends seen on other procurement processes throughout the country. Section 2 provides more details on some of the steps that would be implemented to achieve this.

Marketing

3.65 Marketing spend is currently extremely low so we have included additional expenditure at 2% of income to bring this in line with industry averages and help support the achievement of the projected additional income.

Irrecoverable VAT

3.66 Irrecoverable VAT has been included on the additional vatable expenditure in line with the principles set out previously in this Section.

Central overheads, Profit and Contingency

3.67 Central overheads and profit / contingency have been incorporated at a combined 8% of the additional income forecast, in line with industry averages for external operators.

3.68 The next section analyses potential savings in central support costs under this option.

Central Support Costs

3.69 Currently the leisure service makes a significant contribution towards the central support costs of the Council (circa £502k in 15/16). This is an accounting recharge allocated to the leisure service for the provision of services from the Council's central support departments such as HR, IT, payroll, finance, estates etc.

3.70 All Council services / departments are recharged in this way although to different levels depending on a variety of factors, some of them based on direct costs and some of them notional e.g. time allocated by central staff to working for that service, number of staff within the service, number of computers within the service etc.

3.71 With the full transfer of the service to a third party leisure operator who will have their own central support costs, it is very likely that many of these central functions will not be rechargeable to leisure and will either have to be saved or redistributed to the remaining functions and services within the Council.

3.72 An analysis has been carried out on the likely impact on savings the Council will be able to achieve following any outsourcing of the service and this can be found in Appendix E to this report. The estimated amount of savings is £103,583 per annum although this will not be an automatic saving and will rely on the Council restructuring its central support services in order to realise the saving. This amount is indicative at this stage and so has been incorporated below the line rather than as a guaranteed saving.

3.73 The operator's cost allocation for central support / head office costs is £59,935 based on the industry average of 3% of income. We have also included a profit / contingency margin of £99,892 (5% of income) in line with industry averages.

Implementations Costs

3.74 Implementing this option will incur a number of costs for the Council over a circa 16-month period until April 2018. These costs are explained and estimated in the table below.

Table 3.6 - Implementation Costs

Item	Description	Estimated Cost
Condition surveys	New condition surveys should be carried out for the facilities to inform the procurement process. We have seen contracts procured without up to date condition surveys although this is not best practice as it will lead to bidders incorporating financial risk provisions within their bid model.	£25,000
Consultant support	Support is normally required to help the Council manage the process and provide advice on the drafting of the procurement documentations, key commercial positions, helping negotiations with bidders, evaluating bids etc.	£30,000

Item	Description	Estimated Cost
Legal support	There is a standard template contract for the industry produced by Sport England that the Council could use as a base starting point in order to save on this cost. This cost could be saved entirely if the Council is able to resource this input internally through its legal department.	£20,000
Total		**£75,000**

3.75 It can be seen from the table that the total estimated implementation cost for the Council is £75,000 under this option. This is an indicative cost to an extent as it will depend on how much internal officer expertise the Council can give to the project and what type of procurement process is followed (e.g. whether it involves multiple single or multiple bid stages, the amount of dialogue / negotiation permitted etc.).

3.76 This estimate does not include the cost of Officer time which will be a crucial part of the process. There will need to be a lead officer who oversees the process on a regular basis and more variable input from Council officers such as legal, procurement, finance, HR, senior management team etc.

Summary of Financial Savings

3.77 The table overleaf summarises the financial savings available from this option.

Table 3.7 - Summary of Financial Savings - Package Option A

All £	2018/19	2019/20	2020/21	2021/22	2022/23
Outsourcing of Leisure Facilities					
Operating Income	-1,997,845	-1,997,845	-1,997,845	-1,997,845	-1,997,845
Operating Costs	2,632,814	2,632,814	2,632,814	2,632,814	2,632,814
Net Operating Costs	634,969	634,969	634,969	634,969	634,969
Adjustments:					
Central Overheads (% of income)	59,935	59,935	59,935	59,935	59,935
NNDR Savings	-223,231	-223,231	-223,231	-223,231	-223,231
Change in Services	-372,465	-488,129	-488,129	-488,129	-488,129
Debt Costs	62,176	62,176	62,176	62,176	62,176
Impact on Income from VAT	-247,738	-247,738	-247,738	-247,738	-247,738
Irrecoverable VAT	149,700	149,700	149,700	149,700	149,700
Profit and Contingency (% of income)	99,892	99,892	99,892	99,892	99,892
Other Council Costs (incl. NNDR cost)	111,616	111,616	111,616	111,616	111,616
Total Cost of Outsourcing Services	**274,854**	**159,190**	**159,190**	**159,190**	**159,190**
In House Management					
Operating Income	-74,039	-74,039	-74,039	-74,039	-74,039
Operating Costs	177,473	177,473	177,473	177,473	177,473
Net Operating Costs	103,434	103,434	103,434	103,434	103,434
Changes to Service	0	0	0	0	0
Debt Costs	0	0	0	0	0
Total Cost of In-House Managed Services	**103,434**	**103,434**	**103,434**	**103,434**	**103,434**
Total Cost	**378,288**	**262,623**	**262,623**	**262,623**	**262,623**
Current Budgeted Cost	738,402	738,402	738,402	738,402	738,402
Additional Cost/(Saving)	**-360,110**	**-475,780**	**-475,780**	**-475,780**	**-475,780**

3.78 It can be seen that the Council would be projected to save £360k in Year 1, rising to £476k from Year 2 onwards. This excludes the one-off implementation costs of circa £75k and potential central support savings of circa £104k per annum.

3.79 This is not the maximum that the Council could save as the price would be set following a competitive tendering process and recent such processes in the industry have resulted in positive payments from operators to Councils. We have taken a prudent approach to the projections to ensure that the estimated savings are realistic and not over-ambitious however we believe that the actual savings achieved would probably exceed this level.

3.80 The in-house costs included in the table are the costs of the sports development service which have not been assumed to generate savings.

Implementation Timetable

3.81 Implementing this option would involve a competitive tender process which would involve operators submitting bids to the Council to assess based on their response to the Council's service and financial / legal requirements. The timescale to complete a transfer of the service to an external operator would take between 9 months and 12 months following the broad principles of the Restricted or Competitive Negotiation procurement approaches. Under current regulations leisure contracts are able to following the principles of these approaches under the Light Touch Regime provided by the European Union which would allow the Council some flexibility around the tender approach.

3.82 Any timetable for implementation would need to take into account time to prepare procurement documentation and allow sufficient time for a handover process following the procurement process so (assuming a decision to implement this option was taken in December 2016) we would project a contract start date of 1st April 2018. Until this time, the Council would continue to manage the service in-house as it currently does.

Summary of Package Option A

3.83 Option A produces a significant saving of £360k in Year 1, rising to £476k from Year 2 onwards. Year 1 is assumed to be £2018/19 following a circa 16-month implementation process during which a competitive tendering process would be delivered in order to identify a preferred bidder. This saving is likely to be guaranteed for a period of 10 – 15 years depending on the length of contract offered.

3.84 This excludes the one-off implementation costs of circa £75k which would be incurred primarily in 2017/18. There is also the potential to make central support savings of circa £104k per annum however this relies upon a Council-wide review of the structure of its central support function and so is not a guaranteed saving.

3.85 This is not the maximum that the Council could save as the price would be set following a competitive tendering process and recent such processes in the industry have resulted in positive payments from operators to Councils. We have taken a prudent approach to the projections to ensure that the estimated savings are realistic and not over-ambitious however we believe that the actual savings achieved would probably exceed this level.

3.86 There is strong market interest in this opportunity which should give the Council comfort that there would be a competitive bidding process should it advertise the opportunity to the market.

3.87 There are many advantages and disadvantages of this option which the Council must consider before making its decision. The primary advantages for the Council relate to the ability to transfer risk to the operator whilst making revenue savings and gaining greater budget certainty over a 10-15 year period. It will also ensure a consistency of service quality across the District (which may not be delivered through Options B and C).

3.88 The key concerns for many local authorities in regard to this option are that it could result in a loss of community focus / greater commercial focus and the day to day control over managing the facilities is transferred (although these disadvantages can be mitigated to an extent by following best practice in drafting the contractual documents and positive on-going management of the contract).

4. Package Option B

Introduction

4.1 Under this package option, two of the leisure facilities (Ashbourne and the Arc) will continue to be managed in-house by the Council but Bakewell and Wirksworth will be transferred under Community Asset Transfers (CATs) to community organisations to manage. The Sports Development service remains in-house with the Council.

4.2 This section sets out the implications of Option B including the following areas:

- Description of the option;
- Advantages and disadvantages;
- Legal Considerations;
- Potential market interest;
- Financial implications;
- Implementation timetable;
- Summary of Option.

4.3 This option was known as 'Option 5' under the Stage 1 options appraisal work carried out by FMG.

Option B Description

4.4 This option would involve the Council no longer managing Wirksworth and Bakewell in-house. It would only retain the direct management of the Arc and Ashbourne on an in-house basis. The Council would still retain direct control over the operation of the Arc and Ashbourne and would retain all income and incur all expenditure as it currently does. The major change under this option would be in relation to the management of Wirksworth and Bakewell and how these two facilities interact with the two facilities remaining under direct Council management.

4.5 The Council would seek to carry out CATs for the management of Wirksworth and Bakewell. This would involve finding or establishing suitable community organisations to take on the management of these two facilities (either one organisation for both facilities or separate organisations for each facility). The first question to address is what a community asset transfer is before understanding its specific local implications for the District in this scenario.

Background to Community Asset Transfers

4.6 In response to diminishing budgets in recent years, some local authorities are taking a more fundamental approach to asset transfers whereby sites are transferred via a long-term lease to external organisations. This is more likely to occur on an individual facility basis.

4.7 Community Asset Transfers involves a shift in the long term management and/or ownership of land or buildings from local authorities to groups and organisations such as social enterprises, voluntary groups, sports clubs, national governing bodies etc. However, it could also be an asset transfer to another public body, such as a town or parish council or to a school (in the scenario of dual-use facilities particularly).

4.8 A community asset transfer could take the form of a freehold, a long lease, a shorter lease or a licence to occupy. However, for most transfers, where grants or loans are required for capital development, the length of tenure will need to be long enough to secure external investment. Therefore, asset transfer is usually taken to mean a long lease, often at least 25 years, or a freehold.

4.9 Local authorities are able to transfer their land and buildings to community sports organisations at 'less than best consideration', i.e. below market value. With regards to a freehold disposal, Local Government can dispose of its assets at less than best consideration under the General Disposal Consent (England) 2003, where the asset to be disposed of has an 'undervalue' of less than £2million.

4.10 The legislation also requires that, to meet the criteria set and so be lawful, the transfer should help to secure the promotion or improvement of the economic, social or environmental well-being of an area.

4.11 There is no requirement that local authorities undertake a tendering process within the General Disposal Consent. However, there is the general requirement for authorities to follow "normal and prudent commercial practices" which would suggest ensuring that there are objective steps taken to confirm the rationale for the transfer and that it represents the "best" way forward for the local authority. Where a local authority has established a robust and objective business case for transfer, there would be no further requirement to 'market test' a transfer proposal to meet the General Consent criteria.

4.12 When considering whether to make an asset transfer, local authorities should:

- Have regard to their corporate policy in determining whether this is an appropriate course of action to consider;
- Comply with "normal and prudent commercial practices" in identifying the rationale and terms of transfer, ideally supported by objective third party evidence - for example by obtaining the view of a professionally qualified valuer so that the likely amount of the undervalue can be assessed;
- Understand what community benefits will be realised by the transfer and note these;
- Identify how the interests of local people will be better served by this route rather than any other;
- Establish and test the business plan and financial viability of the community based organisation's plans;
- Assess the State Aid implications.

4.13 Opportunities to progress an asset transfer are best taken forward when there is:

- Community appetite to do so;

- The community resource and support is sufficient for the future of the asset to be sustainable and to successfully meet the objectives of making the transfer

- When public bodies seek to engage and involve communities in the design and delivery of services;

- When facilities and services are threatened with closure (without an alternative being contemplated);

- Adequate time to develop a transfer proposal;

- When the terms of a transaction between partners are mutually beneficial;

- The community resource and support is sufficient for the future of the asset to be sustainable and to successfully meet the objectives of making the transfer.

4.14 Some of the opportunities may be 'demand-led' through a community based organisation asking the Council if it is willing to make a transfer; others may be in response to external factors or events e.g. a planning application for development or proposals for the closure of sports facilities owned and managed by the local authority.

4.15 It is crucial that, for an asset transfer to be successful into the future it must be sustainable - and this requires both the local authority and the organisation to work together. The local authority must continue to support the community group to achieve the targets agreed at the time of the community asset transfer and not purely look at is as a way of offloading a liability.

4.16 The community group must have undertaken a robust feasibility study before entering into an asset transfer and must have a strong and sustainable business plan in place, considering all capital, revenue and cash flow implications.

How the Option Would Work in Derbyshire Dales

4.17 Whilst we are using the ‘community asset transfer’ term to describe this option, it should be made clear that the Council does not own the land on which Wirksworth Leisure Centre is built. The centre was built on land owned by the Anthony Gell School Foundation (‘the Foundation’) and leased to the Council. The lease commenced on 20th January 1999 and expires on 28th March 2079. As such, it is not the Council’s asset to transfer without the agreement of the Foundation.

4.18 A CAT in this context for Wirksworth would involve the Council, in partnership with the Foundation, identifying a suitable community organisation to take on the on-going management of the leisure centre. This would either be via the mechanism of the Foundation and the Council agreeing to terminate the lease early, or, more likely, the Foundation agreeing that the Council can sub-lease the facility to another suitable organisation. The sub-lease would step down / assign the Council’s responsibilities under the lease to the community organisation.

4.19 Consultation has been carried out with representatives from the Foundation and they have stated that their requirements to consider agreeing to any assignment of the lease to another organisation would depend on the following:

- School-use must continue as per the current arrangements;

- The terms of the original Joint-Use Agreement between the Council and the School (dated 3rd March 2000) would need to be incorporated and delivered for at least a 10-year period in the first instance, with the ability to renew and extend;

- There would need to be a need for due diligence checks regarding any other proposed operator;

- The financial arrangements in relation to rental, management of the artificial turf pitches and operating costs such as repairs and maintenance, utilities etc. would need to continue as per the current agreement;

- The standards to service, repairs and maintenance etc. would need to be to the same high standards in accordance with the lease.

4.20 These terms could be incorporated under a new operating arrangement however they would prohibit a reduction in the service on offer (e.g. reduced opening hours) as a way in which to reduce the net operating cost of managing the centre.

4.21 The same stipulations are unlikely to apply to Bakewell Swimming Pool. Although the freehold of the site is owned by Halldale Properties and their permission would be required, it is less likely that there would be an objection to leasing the site to a community organisation that is not intending to change the use of the site.

4.22 Assuming a suitable organisation(s) could be identified to manage the facilities (discussed later in this section) and the permission of the landowners was gained, the facilities would be leased to the organisation(s) for a defined period of time. The lease would typically be 25 years or longer to provide the organisation with some long-term security although in reality the lease could be for whatever period the parties agreed upon.

4.23 The leases would set out the terms under which the organisation(s) would be required to manage the facilities and would restrict the organisations from changing the use of the facilities so that they continue to be made available for public sport and leisure use. The Council's current repairs and maintenance responsibilities would transfer to the community organisation(s) however it is unlikely that any community organisation would take the financial risk of this responsibility without the Council investing funds to upgrade the condition of the buildings before the lease is signed or granting the organisation a significant dowry in order to meet any liabilities in this regard.

4.24 Up to date condition surveys would need to be carried out before a community asset transfer could take place on any of the facilities. The most up to date condition surveys that we have seen are from December 2014. These indicated investments required of £101,321 at Wirksworth Leisure Centre and £21,746 at Bakewell Swimming Pool. Whilst these sums were not particularly large, this data is now two years out of date and would need to be updated before the full cost of the required upfront investment could be finalised.

4.25 In exchange for the leases, the organisation(s) would be required to manage the facilities and take all risk on the income and expenditure associated with them, as the Council does at the present time.

4.26 The staff that currently work within the two facilities would transfer to the new organisation(s) under TUPE regulations which would mean that their existing terms and conditions would be protected. However, the new organisation(s) may have a different view on how they would manage and staff the facilities and there may need to be redundancies made. It is likely that the responsibility to make the redundancies would fall to the organisation taking over the management of the facilities however the organisation(s) would build any redundancy costs into the business plan(s) and this would impact on the saving that the Council could realise in the first year following the transfer. The financial implications of this option are discussed in more detail later in this section.

Advantages and Disadvantages

4.27 A summary of potential advantages and disadvantages of this option is set out in the table below.

Table 4.1 - Package Option B Advantages and Disadvantages

ADVANTAGES	DISADVANTAGES
Empowerment and involvement of the local communities of Bakewell and Wirksworth in shaping and managing their local facilities.	The organisation(s) taking over the asset may be inexperienced and struggle to cope with the management responsibility of what are very specialist community assets.
An opportunity to be catalysts for skills development / volunteering opportunities / job creation / business development in the areas of Bakewell and Wirksworth.	Fluctuations in income and expenditure may be difficult to sustain for the organisation(s) operating the assets.
A potential reduction in the financial subsidy of operating Bakewell and Wirksworth for the Council (although savings are not guaranteed and are unlikely to be made in the initial years after transferring the assets).	Quality of the asset and service at Wirksworth and Bakewell is not within the Council's control and may be compromised.
The Council retains direct control over the quality of service and asset at the Arc and Ashbourne.	The organisation(s) may have limited access to capital to invest in the facility and may require a dowry from the Council.
Potential central support savings as a result of no longer supporting Wirksworth and Bakewell.	Business case may not be accurate and the on-going operation may not be sustainable – just transferring the cost of operation from the Council to the external organisation(s).
The community organisations may have access to external funding pots from sources not available to the Council e.g. if structured as an NPDO.	Potential lack of skills, experience and capacity in the organisation(s) could jeopardise the quality of service and operation at Wirksworth and Bakewell.

ADVANTAGES	DISADVANTAGES
Opportunities to improve the assets, grow participation in sport and increase usage at Wirksworth and Bakewell would be directly under the control of members of the local community.	Potential redundancies at Bakewell and Wirksworth if the community organisation(s) adopts a different staffing model or struggles to break even utilising the current staffing structure.
	Loss of a joined-up leisure offer across the District. Unlikely that members of Wirksworth and Bakewell could continue to use the facilities at the Arc and Ashbourne without paying extra.
	The Council's in-house team will still have to manage two facilities directly itself plus potentially liaise with an external organisation(s) in relation to landlord responsibilities and access for sports development opportunities.
	Increased fragmentation of the service as a result of two or potentially three separate management vehicles. This may result in extremely varied quality of service across the District depending on where residents live.

4.28 The potential advantages of this option revolve around the opportunity for increased local 'ownership' of / involvement in the leisure offers for Wirksworth and Bakewell. However, there are very real risks regarding the sustainability of this option as the organisation(s) that take over these facilities may not have the experience of managing complex leisure assets and may not have significant financial reserves to fall back on should the business plan not be achieved.

4.29 In addition, there would be concerns regarding the fragmentation in the service on offer to residents of the District as there would be varying operators across the four facilities with differing levels of resources and abilities to invest in the service. There is a risk that the facilities in Wirksworth and Bakewell will become the 'poor relation' and members of these facilities would no longer have the option to utilise their memberships to use the other two facilities as well.

Legal Considerations

4.30 The powers that local authorities have to transfer assets have been highlighted previously within the section of the report. Essentially, local authorities are able to transfer their land and buildings to community sports organisations at 'less than best consideration', i.e. below market value.

4.31 With regards to a freehold disposal, Local Government can dispose of its assets at less than best consideration under the General Disposal Consent (England) 2003, where the asset to be disposed of has an 'undervalue' of less than £2million, (in practice, therefore, this means that the vast majority of assets proposed for transfer will meet this criterion). The legislation also requires that the transfer should help to secure the promotion or improvement of the economic, social or environmental well-being of an area.

4.32 There is no requirement that local authorities undertake a tendering process within the General Disposal Consent. However, there is the general requirement for authorities to follow "normal and prudent commercial practices". Where a local authority has established a robust business case for transfer, there would be no further requirement to 'market test' a transfer proposal to meet the General Consent criteria.

4.33 The issue for the Council to consider is whether this same test can be applied in this situation as the land in question (at Wirksworth and Bakewell) is not owned by the Council and therefore this would not be a situation regarding a freehold disposal. Legal advice would be required on this matter if the Council does wish to implement this approach to ensure that the Council is meeting all legislation.

4.34 As highlighted previously in this section, the situation at Wirksworth and Bakewell would be that the Council would be required to obtain the landlord’s permission to either determine the current leases or (more likely) sub-lease the facilities to the community organisation(s). the leases would be required to replicate all current liabilities so that the freehold owners and the Council are not assuming any additional risk. The requirements at Wirksworth are more complex than Bakewell due to the Joint-Use arrangements, history of grant funding and management arrangements for the artificial turf pitches which would need to be replicated within the agreements with the community organisation.

4.35 Assuming the facilities are not leased to existing organisations and a new organisation(s) is required to be established, the structure of the organisation would need to be the subject of detailed legal advice at the next stage. This would form part of the detailed business case phase which would follow any decision by the Council to proceed with this option.

4.36 How a community based organisation is set up and the legal 'vehicle' it operates through will determine its powers of ownership and management in relation to its assets. It is likely that the organisation(s) would be an NPDO (potentially a Charity Charitable or Community Interest Company). These organisations are regulated by law with regard to the way in which they hold their assets to ensure that the asset are utilised for the benefit of the community they are serving and to directly further its charitable or community benefit aims.

4.37 Another factor to consider is the lease arrangements. The length of lease will depend partly upon the community upon the organisation’s business plan needs which would need to be developed at the next stage. Typically, no price is paid up front for a short-term lease, but they will often attract a market rental payment throughout their term. Leases granted for a far longer term (e.g. for 125 or more years), will often be granted for a purchase price, (known as a premium), which is payable when the lease is taken out and a lower rent being payable throughout the term, i.e. a nominal annual sum of £1 – a 'peppercorn'. A purchase price is not a suitable approach in this scenario so the Council would be looking for a rental payment or, at least, a zero subsidy approach. If this is not possible (which is analysed below) then the asset transfer will either not be viable or the Council will need to subsidise its operation.

4.38 Other issues that will need consideration and specialist legal advice include insurance responsibilities, Stamp Duty Land Tax, and State Aid. This report has flagged a number of legal issues associated with the asset transfer option however this is with the intention of highlighting the issues and is not legal advice. There will be a need for specialist legal advice and support at the next stage should the Council decide that it wishes to pursue this option further.

Potential Market Interest

4.39 The success of this option relies on the identification of suitable community organisation(s) willing (and able) to take on the management of the facilities at Wirksworth and Bakewell. A key recognised principle of asset transfers is that they work best when responding directly to the needs of the local community in which they are situated. This means defining the purpose must be led by and involve local people. Asset transfer is far more likely to be successful where there is buy-in and support from a good cross-section of the community.

4.40 We have carried out consultations with a number of organisations and individuals in attempt to establish whether there is likely to be the interest and capacity in the two towns to take on the management of the facilities (see Appendix B for consultees list). It appears from the consultation that there is unlikely to be a pre-existing organisation(s) with the ability / desire to take on the management of these facilities at this stage. However, that is not to say that there are not individuals / organisations that are willing to be involved as part of a new organisation(s) that may be established in the future.

4.41 Addressing Wirksworth firstly, we have consulted with the Wirksworth Swimming Pool, Trust, the organisation that took on the management of Wirksworth Swimming Pool 2012 as a result of a similar community asset transfer. Consultation has revealed that the Trust is not interested in taking on the direct management of the leisure centre at this stage as they do not have the capacity or expertise to take on an operation of this size considering the significant on-going work they are carrying out in order to ensure that the swimming pool can operate as a sustainable facility.

4.42 Having said this, the Trust would potentially be interested in contributing towards a community solution that may involve them sharing expertise and resource with and potentially being represented on the Board of any new local community trust. However, they did stress the challenging nature of the community asset transfer undertaken on the swimming pool (in terms of on-gong operations) and that their expertise is in relation to this asset specifically and not such a wide ranging leisure facility as that offered by the leisure centre.

4.43 The view of the School is that it would not wish to manage the facilities directly itself although may as a last resort if the Council walked away from the centre (albeit that this may lead to a reduction in community access).

4.44 Following further consultations with external stakeholders such as the School and the School Foundation it has emerged that there is potentially support for an option whereby a new community trust is created that various local organisations would be represented on but there is not a ready-made organisation in Wirksworth ready and able to take on the management of the facility.

4.45 During the consultation process, a potential high level option was proposed by representatives of the School Foundation, School and Swimming Pool Trust that reflects a joined-up approach to the management of leisure facilities in Wirksworth that would include the swimming pool and the health centre as well as the leisure centre (including the arrangements for the management of the artificial turf pitches). This option was presented as a sub-option but in reality is almost exactly how we envisage Option B would work if a new community trust was formed.

4.46 The major caveat to this option is that the proposal is clear that it would only be possible if the leisure centre received sufficient capital investment upfront to address any issues identified through a condition survey and that the on-going running of the centre could be delivered at zero cost or be supported by a subsidy from the Council. The potential of this occurring is addressed later in this section under the financial implications.

4.47 In relation to Bakewell Pool, consultation has revealed that there could potentially be the types of individuals in the local community who would wish to become involved in a local community trust as there is considerable 'social capital' in the area however there is not thought to be an existing organisation ready to take on the management of the facility immediately.

4.48 The issue of whether the new swimming pool trust, or potentially any new Wirksworth community leisure trust, may be interested in taking on the management of Bakewell Pool was raised however it was felt that this was unlikely for several reasons such as the need for local Bakewell people to lead the organisation and the lack of spare capacity of the existing swimming pool trustees. It was acknowledged that there may be an opportunity for the swimming pool trust and potentially any new Wirksworth leisure trust to share expertise and potentially resources with a future Bakewell community leisure trust which would be a positive step if this option was pursued.

4.49 The result of this is that there would need to be an advertisement / recruitment process for potential trustees and interested parties to come forward in Bakewell before it could be judged how viable a community leisure trust for the pool might be. This means that, to deliver this option fully, would be likely to require the establishment of two, separate new community leisure trusts in the District. This is likely to have significant cost and resource implications which are discussed later on in this section.

Financial Implications

4.50 This section sets out the financial implications of this option, taking into account:

- Structural Savings;
- Opportunities for Savings and Growth;
- Central Support Costs;
- Implementation Costs.

4.51 Each area has been analysed in turn in order to identify the total estimated financial impact on the Council when compared to the 2015/16 actual figures which was a net direct cost to the Council of £738k (as summarised in Section 2 of this report).

Structural Savings

4.52 Under this option, the Council will retain the management of the Arc and Ashbourne in-house (so structural VAT and NNDR savings will not be available) but the community organisation(s) that runs Wirksworth and Bakewell could still NNDR and VAT savings in relation to these two facilities assuming that they are structured as charities.

4.53 This follows the same principle as under Option A (where the external operator would most likely be structured as a charity) however the savings available are only in relation to Wirksworth and Bakewell. These savings would be incorporated within the business plan of the external organisation(s) (see 'opportunities for savings and growth' below). Whether the external organisation is able to pass these savings through to the Council as part of a revenue saving will depend on whether a sustainable business model can be developed for these two assets.

4.54 The principle of community asset transfers is that the Council is not transferring a liability onto another organisation. Therefore, establishing whether there is a positive business case for the transfer is key. If the facility is unlikely to break even under the community organisation, then the Council will not be able to simply remove the revenue subsidy for the facility because it no longer has the legal responsibility for the asset. If the business plan shows a likely on-going revenue deficit for the asset then the Council will need to provide revenue support, at least for an agreed period with a business plan that identifies how the net cost of operating the facilities can be reduced / removed.

4.55 In light of the above principle, the VAT and NNDR savings have been incorporated within the 'opportunities for savings and growth' section below in an attempt to understand if it is viable for a community organisation(s) to reduce or remove the net direct deficit for the facilities and therefore whether the Council is likely to be able to successfully transfer the assets (on the assumption that no community organisation would / could take on the management of the assets without a sustainable business plan in place).

Opportunities for Savings and Growth

4.56 We have reviewed the sites to identify a number of opportunities for the leisure facilities. There are two aspects to this under Option B:

- Opportunities for the in-house team to generate savings at the Arc and Ashbourne;
- The potential for a community organisation structure to generate savings at Wirksworth and Bakewell.

4.57 These are analysed in turn below.

In-House Projections

4.58 We have worked with the in-house team to identify a number of areas where they and we are confident that they could deliver genuine revenue savings for the Council under this option. The in-house team have worked up the revenue savings detailed below with the support of FMG. The business plans for each of these improvements are set out in more detail in Appendix F.

Health and Fitness

4.59 The latent demand study carried out projected that there are a potential additional 348 members for the Arc and Ashbourne.

4.60 We have incorporated the conversion of these individuals into members as part of the income projections based on a number of improvements set out in Section 2. This results in increased health and fitness income of £130k in Year 1, rising to £236k by Year 5. In order to help facilitate this we have included increased expenditure including staffing increases ranging from £35k in Year 1 to £88k in Year 5 and other operating expenditure increases ranging from £5k in Year 1 to £6k in Year 5.

4.61 A £30k capital investment to convert the community room into a group exercise and functional training space has also been incorporated as a debt cost.

4.62 This results in a net bottom line improvement in Year 5 of £143k before debt costs.

Swimming

4.63 Based on the improvements set out in Section 2, we have projected a £47k increase in swimming income in Year 1 rising to a £132k increase by Year 3. To fund this, we have included additional staffing costs rising to a £40k increase in Year 3 (aquatics development coordinator and teaching costs). We have estimated that a capital investment into equipment of £36k is required for this programme offer (funded through debt).

4.64 This results in a £92k net improvement by Year 3, rising to £116k by Year 5 (all figures before debt costs).

Gymnastics and Born 2 Move

4.65 We have projected that a new gymnastics programme and Born 2 Move scheme (as set out in Section 2) would bring in £178k of additional combined income by Year 2. Expenditure relating to this (staffing and other operational costs) would be £111k per annum, resulting in a net surplus before debt costs of £68k (before debt costs). We have estimated that a capital investment into equipment of £21k is required for this programme offer (funded through debt).

Utilities

4.66 Expenditure on utilities is currently high so we have agreed a target of a 5% reduction with the in-house team based on the approach outlined in Section 2. Section 2 provides more details on some of the steps that would be implemented to achieve this. This results in a circa £19k saving per annum.

Summary of In-House Savings and Growth

4.67 The table overleaf summarises the projected savings and growth that the in-house team is confident it could achieve. This is revenue only and does not include the capital investment required (which is factored into the summary table set out later in this section).

Table 4.2 - Summary of In-House Savings and Growth Projections

All £	2018/19	2019/20	2020/21	2021/22	2022/23
Increased Membership Income	- 129,517	- 168,743	- 206,279	- 223,733	- 236,310
Increased Swimming Income	- 47,630	- 89,760	- 131,890	- 131,890	- 131,890
Born 2 Move Income	- 27,000	- 54,000	- 54,000	- 54,000	- 54,000
Gymnastics Income	- 124,079	- 124,079	- 124,079	- 124,079	- 124,079
Health and Fitness Staffing Expenditure	35,315	52,012	80,383	86,482	87,586
Health and Fitness Other Expenditure	4,991	5,241	5,503	5,778	6,067
Swimming Staffing Expenditure	-	7,699	39,869	39,869	15,937
Born 2 Move Staffing Expenditure	16,200	32,400	32,400	32,400	32,400
Born 2 Move Other Expenditure	1,560	1,560	1,560	1,560	1,560
Gymnastics Staffing Expenditure	74,118	74,118	74,118	74,118	74,118
Gymnastics Other Expenditure	2,500	2,500	2,500	2,500	2,500
Utilities Expenditure Savings	- 18,596	- 18,596	- 18,596	- 18,596	- 18,596
Total	**- 212,138**	**- 279,648**	**- 298,511**	**- 309,591**	**- 344,706**

4.68 It can be seen that the total projected savings from the in-house team are £212k in Year 1, rising to £345k in Year 5. We believe that these savings are achievable given the required investment and the correct ethos and attitude from the management and staff.

4.69 They capital investment of £87k would cost circa £14k per annum in borrowing costs. This cost has been included in the summary table set out later in this section.

CAT Projections

4.70 We have analysed the structural changes that will need to be put in place in order for a community organisation(s) to manage Bakewell and Wirksworth as independent facilities. A summary of our financial projections is set out in the table below.

Table 4.3 - CAT Financial Projections

All £	2018/19	2019/20	2020/21	2021/22	2022/23
Net VAT Impact	- 26,813	- 26,813	- 26,813	- 26,813	- 26,813
NNDR Saving	- 25,833	- 25,833	- 25,833	- 25,833	- 25,833
Staffing	54,000	54,000	54,000	54,000	54,000
Lifecycle Provision	80,000	80,000	80,000	80,000	80,000
Central Support Function	18,655	18,655	18,655	18,655	18,655
Contingency	12,437	12,437	12,437	12,437	12,437
Additional Health and Fitness Income	- 50,112	- 50,112	- 50,112	- 50,112	- 50,112
Additional Marketing Expenditure	13,439	13,439	13,439	13,439	13,439
Total	**75,773**	**75,773**	**75,773**	**75,773**	**75,773**

4.71 The table shows that we do not think it is likely that a community organisation(s) will be able to significantly reduce the cost of operating the facilities on an independent basis. Our projections suggest that the net direct cost of operating the facilities may actually increase by circa £76k per annum. An explanation of the assumptions behind these projections is set out below.

VAT

4.72 VAT is usually a significant source of revenue savings in externalised management models that are structured as charities. However, due to the limited income and high expenditure on these two sites, the net VAT benefit is minimal (c£27k per annum). This incorporates a benefit on income of circa £58k per annum but irrecoverable VAT of circa £31k per annum.

NNDR

4.73 Similarly to the VAT position, NNDR is not a major cost at these two facilities (when compared with the Arc and Ashbourne) and therefore the potential saving from NNDR relief is limited. Mandatory NNDR at 80% on these two facilities would equate to a saving of circa £52k per annum although we have added back 50% of this saving as the Council would be indirectly funding the new relief as per the terms of the business rate retention scheme. This results in a potential net saving of circa £26k per annum from NNDR relief.

Staffing

4.74 We have assumed that both facilities will need managers in place to oversee the operation of the facilities and included costs for two managers (including on-costs). This would ordinarily be one post if the facilities were being managed by one organisation however we believe this scenario is unlikely and that separate organisations would be established with separate managers. It is possible that a joint manager could be jointly appointed and funded by the two organisations with a saving realised in this area.

Lifecycle Provision

4.75 Any community organisation(s) looking to take on assets of this nature would need to be confident that it could fund any unforeseen building lifecycle issues that arise over the course of the lease period. In light of that, the business case for the asset transfer would need to incorporate provision for a lifecycle fund to be built up on an on-going basis. We included provision for both buildings equating to £80k per annum in total based on industry best practice.

4.76 This is an area that could be reduced to produce a saving but would not be best practice and it is not likely that the organisation(s) that the assets are transferring to would wish to take them on without a similar lifecycle plan in place. A specific budget provision has been made for lifecycle costs under this CAT option but not in other options as the community organisation(s) would not have reserves or borrowing facilities to provide for this liability so if they were to take on the asset risk it would be imperative for them to build a lifecycle fund for the future so that they could meet future liabilities.

Central Support Function and Contingency

4.77 The community organisation(s) will need to have access to central supports services for functions such as payroll, HR, finance etc. This may be an expansion of existing services or more likely the procurement of a new service. It is unlikely that community organisations of this size would deliver these services in-house as it is generally not cost effective. We have included provision of 3% of income and have assumed that the organisation(s) would not procure these services from the Council as utilising local independent providers is likely to be more cost effective.

4.78 Contingency has been included at 2% of income per annum. This expenditure item could be an area for savings however it is unlikely that a new organisation would sign-up to a business plan that did not build in any contingency for downturns in performance and unexpected expenditure items.

Health and Fitness Income

4.79 It will be important for the community organisation(s) to attempt to increase income as well as looking at cost savings. We have included a provision for the conversion of the latent demand identified by the Leisure Database Company however we have only assumed a 50% conversion as we do not know the quality of the operation at this stage and it may be difficult to attract significant increases in members with only a single site offer. We have included an increase in marketing based on industry averages of 2% of income in order to help deliver this projected increase in income.

Summary of CAT Projections

4.80 In summary, we are projecting an increase in the cost of operating Bakewell and Wirksworth (by circa £76k per annum before debt costs) under a CAT model. We acknowledge and have highlighted that there are potentially areas where savings could be made however this would only be likely to bring the option back in line with the current cost of service and not offer a significant saving.

4.81 The issue for the Council is that it would be attempting to transfer assets that have a significant cost of operation but have limited opportunities for generating increased income (e.g. low latent demand and limited invest to save options) and limited opportunities for expenditure efficiencies (e.g. NNDR and VAT savings). With limited options for these two levers, it will be difficult for a community operation to take on these assets at a reduced net cost without making limiting opening hours / access and making redundancies / seeking to move to a limit staffing volunteer model. These options may decrease the net cost but would offer a significantly curtailed service to residents within the catchment areas of the two facilities.

4.82 In addition to the on-going revenue cost associated with this option, it is anticipated that any community organisation that takes on the management of the facilities on an asset transfer basis would expect the Council to make an upfront capital investment into the buildings to reduce their on-going operational risk. We have included in the summary model below a sum of £21,641 per annum in debt costs which equates to an upfront investment of £184,601 by the Council. This covers the cost of the condition survey works identified in the surveys from 2014 plus an uplift of 50% to account for new items and /or additional upgrades to the facilities e.g. redecorations. New condition surveys would be required in order to confirm the estimated capital investment required but it is unlikely that a community organisation would take on these facilities without such an upfront capital investment (based on the long-term liabilities and risks associated with the facilities).

Central Support Costs

4.83 Two of the facilities will be remaining in-house under this option so the leisure service will still require support services from the Council's central function. However, with Wirksworth and Bakewell transferring away from direct Council management, the level of support required by the Leisure Service will definitely decrease.

4.84 One or potentially two new organisations will be managing Wirksworth and Bakewell under this option. These organisations will still require central support services such as payroll, finance, HR etc. and may purchase these back from the Council in the short term (on the assumption that they are new organisations without these structures and services already in place). However, we would not anticipate that such an arrangement would be likely to continue beyond an initial 12-24 months (if it happens at all) as the organisation(s) would be able to procure these services more cost effectively externally than from the Council. For this reason, we have assumed that the asset transfer option would not involve the community organisation(s) procuring central support from the Council.

4.85 An analysis has been carried out on the likely impact on savings the Council will be able to achieve as a result of this option and this can be found in Appendix E to this report. The maximum estimated amount of savings is £36,124 per annum although this will not be an automatic saving and will rely on the Council restructuring its central support services in order to realise the saving. This amount is indicative at this stage and so has been incorporated below the line rather than as a guaranteed saving. The community organisation(s) cost allocation for central support / head office costs is incorporated within the financial projections set out above.

Implementation Costs

4.86 Implementing this option will incur a number of costs for the Council over a circa 16-month period until April 2018. These costs are explained and estimated in the table below.

Table 4.4 - Implementation Costs

Item	Description	Estimated Cost
Condition surveys	Condition surveys will definitely be required for Bakewell and Wirksworth under this option. These will be especially important for any community organisation(s) attempting to take on responsibility for the assets as they may not have the asset management experience or necessary financial resources to be able to manage unforeseen problems with the buildings. Visual surveys are normally sufficient under Option A but more detailed instructive surveys may be required under this option in relation to Wirksworth and Bakewell. We have retained the same estimated cost as under Option A because, although more detailed surveys will be required, only two surveys will be required rather than four surveys.	£25,000
Consultant support	Support is likely to be required to help the Council in relation to the business case, negotiations and document drafting in relation to the community asset transfer(s). We anticipate that this will be more legal based so have reduced the provision under consultant support when compared to Option A.	£20,000
Legal support	Legal support is likely to be required in relation to drafting and negotiating legal documents (leases, contracts, funding arrangements etc.) for the community asset transfer(s). This could involve negotiations with two separate organisations potentially.	£40,000
Total		**£85,000**

4.87 It can be seen from the table that the total estimated implementation cost for the Council is £85,000 under this option. This is an indicative cost to an extent as it will depend on how much internal officer expertise the Council can give to the project and how many parties are involved in the community asset transfer(s).

4.88 This estimate does not include the cost of Officer time which will be a crucial part of the process. There will need to be a lead officer who oversees the process on a regular basis and more variable input from Council officers such as legal, procurement, finance, HR, senior management team etc.

Summary of Financial Savings

4.89 A summary of the financial savings under this option (combining both the in-house and asset transfer options) is set out in the table below.

Table 4.5 - Summary of Financial Savings - Package Option B

All £	2018/19	2019/20	2020/21	2021/22	2022/23
In House Management					
Operating Income	-1,450,040	-1,450,040	-1,450,040	-1,450,040	-1,450,040
Operating Costs	1,924,600	1,924,600	1,924,600	1,924,600	1,924,600
Net Operating Costs	474,560	474,560	474,560	474,560	474,560
Changes to Service	-212,138	-279,648	-298,511	-309,591	-344,706
Debt Costs	14,025	14,025	14,025	14,025	14,025
Total Cost of In-House Managed Services	**276,446**	**208,937**	**190,074**	**178,994**	**143,878**
Community Asset Transfer (CAT)					
Operating Income	-621,844	-621,844	-621,844	-621,844	-621,844
Operating Costs	885,687	885,687	885,687	885,687	885,687
Net Operating Costs	263,843	263,843	263,843	263,843	263,843
Changes to Service	75,773	75,773	75,773	75,773	75,773
Debt Costs	21,641	21,641	21,641	21,641	21,641
Total Cost of Community Asset Transfers	361,256	361,256	361,256	361,256	361,256
Total Cost	**637,703**	**570,193**	**551,330**	**540,250**	**505,134**
Current Budgeted Cost	738,402	738,402	738,402	738,402	738,402
Additional Cost/(Saving)	**-100,700**	**-168,210**	**-187,070**	**-198,150**	**-233,270**

4.90 It can be seen from the table that the Council could save £101k in Year 1, rising to £233k from Year 5 onwards. This excludes the one-off implementation costs of circa £85k and potential central support savings of circa £36k per annum.

4.91 The in-house costs included in the table are the costs of the sports development service which have not been assumed to generate savings.

4.92 It is important to note that all of this projected saving is being contributed by improvements to the in-house financial position through the operational improvements identified. The weakness of this is that these savings are not guaranteed (as the savings in Option A are through the contract) but are projections only. Whilst achievable, if other unforeseen expenditure occurs or competing facilities open in the District, this will be at the Council's financial risk.

4.93 The proposed community asset transfers do not contribute a net improvement to the Council's financial position as we do not see a way in which they could be operated by a community organisation(s) at a reduced cost without severely impacting on the service on offer to the public by restricting access and reducing costs.

Implementation Timetable

4.94 Implementing this option would not involve a competitive tender process as a community asset transfer can be implemented without one assuming that the Council has developed a strong business case and followed the correct procedures highlighted earlier in this section. The timescale to complete a community asset transfer would be similar to Option A in our opinion and take circa 16 months with a projected transfer date of 1st April 2018.

4.95 If this option was to be pursued, there is considerable work to be done in the meantime. This would involve development of a detailed business plan, significant consultation, recruitment of trustees (on the assumption that a suitable existing organisation does not emerge), formation of the new company(/ies), negotiation and completion of legal documentation etc. it would be especially complex if two separate negotiations were required in relation to each of Bakewell and Wirksworth and would involve considerable officer time.

Summary of Package Option B

4.96 Option B produces a projected saving of £101k in Year 1, rising to £233k by Year 5. Year 1 is assumed to be £2018/19 following a circa 16-month implementation process during which an asset transfer process would be required to take place

4.97 This excludes the one-off implementation costs of circa £85k which would be incurred primarily in 2017/18. There is also the potential to make central support savings of circa £36k per annum however this relies upon a Council-wide review of the structure of its central support function and so is not a guaranteed saving.

4.98 It should be noted that all of the savings under this option are provided by the in-house management team making operational savings however these savings are not guaranteed as the financial performance of the in-house team is subject to external market pressures that may be outside of their control. Despite this, we believe that the in-house savings that have been identified are achievable, subject to the lack of any unforeseen negative impacts on the service occurring.

4.99 The major concern with this option is the viability of the asset transfer process for Wirksworth and Bakewell. Sport England guidance on asset transfers identifies 3 major factors that make assets suitable for transfer to local community organisations:

- The asset is currently underused but there is clear potential for growth in usage;
- The asset could be more efficiently or effectively run by a community based organisation e.g. increasing opening hours, lowering overall costs and / or increasing the total numbers or types of people who would use it;
- Transferring the asset to a community based organisation would also achieve other community benefits e.g. by addressing deficiencies in the current demographic profile of users or maximising healthy living outcomes in areas of defined deprivation.

4.100 Based on our analysis, there is not significant potential for income growth on these sites as the opportunities for capital investment to improve the service are limited. Combining this with the lack of structural fiscal savings (in relation to NNDR and VAT) and the limited access to economies of scale that community trusts would have means that the potential to make these facilities financially viable under a CAT model is limited.

4.101 Whilst there are potential local organisations interested in being a part of the solution, it is doubtful that a new organisation made up of these individuals / representatives of organisations could manage the facilities any more effectively than the Council already does without reducing the service on offer to the local communities. For example, there are dedicated school facilities lettings businesses in existence that have indicated an interest in helping the management of the third party access to school facilities in Wirksworth as part of this process. These types or organisations could work with the new community organisation to manage the access on a profit share basis however these models involve primarily lettings to club / group use of the facilities rather than operating the facilities as fully accessible pay and play leisure facilities that are open and fully staffed for the full range of current opening hours.

4.102 The third test set by Sport England in relation to community involvement and addressing local challenges is definitely one of the key advantages of this option however there are also disadvantages relating to the fragmentation in the service on offer to residents of the District as there would be varying operators across the four facilities with differing levels of resources and abilities to invest in the service. There is a risk that the facilities in Wirksworth and Bakewell will become the 'poor relation' and members of these facilities would no longer have the option to utilise their memberships to use the other two facilities as well.

5. Package Option C

Introduction

5.1 Under this package option, the Arc and Ashbourne will be managed by a leisure operator following a competitive tender following EU procurement legislation and Wirksworth and Bakewell will be managed by a community organisation(s) following a Community Asset Transfer(CAT). The Sports Development service remains in-house with the Council.

5.2 This section sets out the implications of Option C including the following areas:

- Description of the option;
- Advantages and disadvantages;
- Legal Considerations;
- Potential market interest;
- Financial implications;
- Implementation timetable;
- Summary of Option.

5.3 This option was not included in the Stage 1 options appraisal work carried out by FMG but we have been asked to analyse it at Stage 2 because it is a combination of Option A and Option B.

Option C Description

5.4 This option would involve the Council no longer managing the four leisure facilities directly. Instead, the Council would manage a competitive tender process following EU procurement regulations which would result in a specialist leisure management operator winning a contract to manage the Arc and Ashbourne for a fixed length of time. At the same time, a Community Asset Transfer would be carried out for the remaining two facilities at Wirksworth and Bakewell. This is very similar to Option B however the outsourced contract approach from Option A replaces the in-house management of the Arc and Ashbourne.

5.5 The management of the Arc and Ashbourne would be delivered by an external operator who would be identified through a competitive tendering process in exactly the same manner as Option A, except the contract on offer will only include two of the four leisure facilities. All of the same key characteristics in relation to Option A will apply for the Arc and Ashbourne, such as:

- The Council would advertise an opportunity for leisure operators to bid for a 10-15 year contract through a competitive procurement process;

- Leisure operators would have the opportunity to bid for the contract and the Council would evaluate the bids to select a preferred bidder based on a combination of the bidders' service proposals and financial offer;

- The Council would be the "client" and would manage operations under a lease and Contract which would include a detailed Services Specification and Performance Monitoring System. At the end of the Contract Term, the facilities would revert back to the Council (if it did not wish to procure another Contract);

- The Services Specification would be a Schedule to the Contract and would set out the Council's requirements in respect of the delivery of the management services. The Services Specification would allow the Council to retain some control over certain key issues e.g. concessionary pricing, protected programming, minimum opening hours etc.;

- The operator would have to manage the facilities in line with the Council's Services Specification requirements and, in exchange, would offer the Council a fixed annual price ('Management Fee') for the Contract Term. This would either be a fixed annual payment from the Council to the operator or a guaranteed annual payment from the operator to the Council (depending on the bidders' business plans established through the tendering process);

- The operator would be required to continue operating the facilities in a similar way to that which the Council does e.g. concessionary pricing schemes, pay and play access etc. They would look to improve the financial position through measures such as those summarised in Section 2 of this report and by virtue of VAT and NNDR savings that their structures entitle them to (which the Council cannot access under an in-house model);

- The operator would undertake management of the facilities, gathering all income generated by the facilities and being responsible for the majority of costs incurred by the facilities;

- Typically, the Council would retain some responsibilities and risks (usually in respect of structural lifecycle replacement of the buildings and utilities tariff increases) and incur costs in respect of these responsibilities. These risks can be transferred to the operator but this typically comes at a risk price premium (which would be established through the procurement process);

- Staff are employed by the operator via a transfer under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE);

- The Council would monitor the operational performance and service standards delivered by the operator, such that any failures to perform may be subject to financial deductions and could lead to termination of the Contract;

- The operator would use its own central support costs (e.g. finance, HR etc.) and will not need to use those of the Council, which potentially has an impact on the central resources of the Council.

5.6 Under this option the Council would also seek to carry out CATs for the management of Wirksworth and Bakewell. This would involve finding or establishing suitable community organisations to take on the management of these two facilities (either one organisation for both facilities or separate organisations for each facility) in the exact same way as detailed under Option B.

5.7 In relation to Wirksworth, the Council and the Foundation would identify a suitable community organisation to take on the on-going management of the leisure centre. This would either be via the mechanism of the Foundation and the Council agreeing to terminate the lease early, or, more likely, the Foundation agreeing that the Council can sub-lease the facility to another suitable organisation. The sub-lease would step down / assign the Council's responsibilities under the lease to the community organisation.

5.8 Assuming a suitable organisation(s) could be identified to manage the facilities (discussed later in this section) and the permission of the landowners was gained, the facilities would be leased to the organisation(s) for a defined period of time. The lease would typically be 25 years or longer to provide the organisation with some long-term security although in reality the lease could be for whatever period the parties agree upon.

5.9 The leases would set out the terms under which the organisation(s) would be required to manage the facilities and would restrict the organisations from changing the use of the facilities so that they continue to be made available for public sport and leisure use. The Council's current repairs and maintenance responsibilities would transfer to the community organisation(s) however it is unlikely that any community organisation would take the financial risk of this responsibility without the Council investing funds to upgrade the condition of the buildings before the lease is signed or granting the organisation a significant dowry in order to meet any liabilities in this regard. Up to date condition surveys would need to be carried out before a community asset transfer could take place on any of the facilities.

5.10 In exchange for the leases, the organisation(s) would be required to manage the facilities and take all risk on the income and expenditure associated with them, as the Council does at the present time.

5.11 The staff that currently work within the two facilities would transfer to the new organisation(s) under TUPE regulations which would mean that their existing terms and conditions would be protected. However, the new organisation(s) may have a different view on how they would manage and staff the facilities and there may need to be redundancies made. It is likely that the responsibility to make the redundancies would fall to the organisation taking over the management of the facilities however the organisation(s) would build any redundancy costs into the business plan(s) and this would impact on the saving that the Council could realise in the first year following the transfer. The financial implications of this option are discussed in more detail later in this section.

Advantages and Disadvantages

5.12 A summary of potential advantages and disadvantages of this option is set out in the table below.

Table 5.1 - Package Option C Advantages and Disadvantages

ADVANTAGES	DISADVANTAGES
Benefits from the asset transfer advantages such as local empowerment, community involvement, skills creation, volunteering opportunities etc. as offered by the CAT under Option B.	The organisation(s) taking over Wirksworth and Bakewell may be inexperienced and struggle to cope with the management responsibility of what are very specialist community assets.

ADVANTAGES	DISADVANTAGES
The external organisations will be able to access fiscal benefits that the Council cannot due to their structures (if structured as NPDOs / charities).	Fluctuations in income and expenditure may be difficult to sustain for the organisation(s) operating Wirksworth and Bakewell.
Guaranteed savings and risk transfer for the Council in relation to the management of the Arc and Ashbourne.	Quality of the assets and service at the facilities are no longer within the Council's control and may be compromised (although can be controlled more directly at the Arc and Ashbourne through the Contract and Services Specification).
A potential reduction in the financial subsidy of operating Bakewell and Wirksworth for the Council (although savings are not guaranteed and are unlikely to be made in the initial years after transferring the assets).	The community organisation(s) may have limited access to capital to invest in the facility and may require a dowry from the Council.
Potential central support savings as a result of no longer supporting any of the four facilities.	Business case for the CAT may not be accurate and the on-going operation may not be sustainable – just transferring the cost of operation from the Council to the external organisation(s).
The external organisations may have access to external funding pots from sources not available to the Council e.g. if structured as NPDOs.	Potential lack of skills, experience and capacity in the community organisation(s) could jeopardise the quality of service and operation at Wirksworth and Bakewell.
Opportunities to improve the assets, grow participation in sport and increase usage at Wirksworth and Bakewell would be directly under the control of members of the local community.	Potential redundancies at Bakewell and Wirksworth if the community organisation(s) adopts a different staffing model or struggles to break even utilising the current staffing structure.
Access to increased financial resources, expertise, experience, economies of scale etc. as provided by the external operator will potentially bring big benefits to the quality of service and facilities on offer at the Arc and Ashbourne.	Loss of a joined-up leisure offer across the District. Unlikely that members of Wirksworth and Bakewell could continue to use the facilities at the Arc and Ashbourne without paying extra.

ADVANTAGES	DISADVANTAGES
	The Council's in-house team will still have to manage two facilities directly itself plus potentially liaise with an external organisation(s) in relation to landlord responsibilities and access for sports development opportunities.
	Increased fragmentation of the service as a result of two or potentially three separate management vehicles. This may result in extremely varied quality of service across the District depending on where residents live.
	Potential concern over a more commercial focus of the operator of the Arc and Ashbourne as opposed to the more community focus of the operator(s) of Wirksworth and Bakewell.
	More complex for the Council to implement and manage / liaise with on an on-going basis due to the number of separate arrangements in place.

5.13 Option C could be seen to be bringing the best points of both Options A and B in terms of revenue savings, central support cost savings and community involvement for the Council however they also consolidate the negative of both of these options relating to loss of control, the increased risk of the solution not succeeding, quality of service issue etc.

5.14 There are also some specific negatives that strongly become apparent as a result of this option when compared to Options A and B. These are related to the complexity of the multiple arrangements (not just in time and cost to implement but also to liaise with on an on-going basis) and the real risk of variable service quality across the District having an impact on residents based purely on where they live (as residents will most likely have to pay extra to use the facilities that they are not direct members of or will need to join multiple membership schemes if looking to use a mixture of facilities).

Legal Considerations

5.15 Some legal considerations in relation to the procurement of and contracting with an external leisure facility operator are flagged in Section 3 of this report and some legal considerations in relation to implementing asset transfers are flagged in Section 4 of this report. Both sections are relevant to this Option C as it combines both processes. Specialist legal advice would be required at the next stage should the Council decide to pursue this option, particularly in relation to the asset transfer approach.

Potential Market Interest

5.16 Soft market testing with the major public sector leisure facility operators in the country (see Option A for more details) has revealed that all respondents would be interested in bidding for this opportunity if only the Arc and Ashbourne were included as part of the package. However, it should be noted that all respondents also indicated that their interest would be reduced compared to Option A and that they would prefer for all four facilities to be tendered as part of one joined-up package.

5.17 In relation to the community asset transfer, please see Section 4 (Option B) for more details on the potential level of local interest for Bakewell and Wirksworth. In summary, the feedback has been that there is likely to be local interest in being involved in new community leisure trusts however there are probably no pre-existing local organisations with the skills and resources / capacity to take on the facilities immediately. Any solution is likely to involve the creation of two new local community trust organisations and will only be viable if a sustainable financial model can be identified.

Financial Implications

5.18 This section sets out the financial implications of this option, taking into account:

- Structural Savings;
- Opportunities for Savings and Growth;
- Central Support Costs;
- Implementation Costs.

5.19 Each area has been analysed in turn in order to identify the total estimated financial impact on the Council when compared to the 2015/16 actual figures which was a net direct cost to the Council of £738k (as summarised in Section 2 of this report).

Structural Savings

5.20 This option assumes that the leisure operator for the Arc and Ashbourne can gain mandatory rate relief (80%) and VAT benefits in relation to the management of the Arc and Ashbourne as per option A (but limited to these two facilities instead of all four).

5.21 A summary of the NNDR saving is set out in the table below.

Table 5.2 - Leisure Operator NNDR Saving for Option C

	Existing Trust
Total NNDR bill (£) (Ashbourne & Arc)	£214,456
Saving to bill payer (%)	80%
Revised NNDR bill (£)	£42,891
Saving to bill payer (£)*	£171,565

	Existing Trust
Saving to Council (%)	50%
Saving to Council (£)	£85,782

* Saving passed onto the Council through a reduction in the Management Fee

5.22 The savings from the leisure operator in relation to NNDR under this option, assuming the company operating the facility would have charitable status, would be £85,782 per annum.

5.23 The indicative VAT benefit from the leisure operator (assuming an NPDO structure) associated with this option is set out in the table below.

Table 5.3 - VAT Savings

	External NPDO
Additional VAT payable (benefit) on Income compared to Council	-£189,409
Irrecoverable VAT incurred on Purchases (dis-benefit)	£123,757
Net VAT adjustment/(saving) from Council Base	**-£65,652**

5.24 The table above sets out the net VAT benefit from the leisure operator under Option C compared to the base Council position. It can be seen that the NPDO can retain circa £189k more of its income but cannot recover circa £124k which will need to be added to the cost of providing the leisure service under this option. Despite this, there is still a considerable net benefit of circa £66k per annum under this option.

5.25 The structural savings that the community organisation(s) could access in relation to Wirksworth and Bakewell are included under the opportunities for savings and growth within the CAT financial projections below.

Opportunities for Savings and Growth

5.26 We have reviewed the sites to identify a number of opportunities for the leisure facilities. There are two aspects to this under Option C:

- Opportunities for the leisure operator to make financial improvements at the Arc and Ashbourne (passed back to the Council through an improved Management Fee);
- The potential for a community organisation(s) structure to generate savings at Wirksworth and Bakewell.

5.27 These are summarised in turn overleaf.

External Operator Projections

5.28 We have reviewed the sites to identify a number of opportunities for the leisure facilities. The table overleaf provides the financial impact of the adjustments that we believe an operator would include if they were bidding for this contract, bearing in mind that these opportunities are applied only to the Arc and Ashbourne.

Table 5.4 - Leisure Operator Adjustments to Net Direct Cost - Option C

All £	2018/19	2019/20	2020/21	2021/22	2022/23
Increased Membership Income	- 175,670	- 219,588	- 219,588	- 219,588	- 219,588
Increased Swimming Income	- 121,440	- 151,800	- 151,800	- 151,800	- 151,800
Gymnastics Income	- 99,263	- 124,079	- 124,079	- 124,079	- 124,079
Secondary Spend Income	- 42,759	- 51,310	- 51,310	- 51,310	- 51,310
Swimming Staffing Expenditure	40,000	40,000	40,000	40,000	40,000
Gymnastics Staffing Expenditure	74,118	74,118	74,118	74,118	74,118
Gymnastics Non-Staffing Expenditure	2,500	2,500	2,500	2,500	2,500
Saving on Utilities Expenditure	- 58,327	- 58,327	- 58,327	- 58,327	- 58,327
Increase in Marketing Expenditure	36,303	38,456	38,456	38,456	38,456
Additional Irrecoverable VAT	10,224	11,316	11,316	11,316	11,316
Additional Central Overheads, Profit and Contingency	35,131	43,742	43,742	43,742	43,742
Secondary Spend Cost of Sales	21,379	25,655	25,655	25,655	25,655
Total	**- 277,805**	**- 369,318**	**- 369,318**	**- 369,318**	**- 369,318**

5.29 It can be seen we are projecting that an operator would project operational savings of £369k from year 2 (2019/20) onwards. Analysis of the adjustments made is set out below. Any capital investment highlighted below is funded through debt and costed for in the overall financial model set out at the end of this section.

Memberships

5.30 The latent demand study carried out projected that there are a potential additional 631 members for these two facilities. It is not uncommon for operators to go some way beyond these latent demand estimates as investment in better quality services and facilities can lead to migration from competitors as well as helping to grow the overall market.

5.31 We have incorporated the conversion of the 631 individuals into members as part of the operator's membership income projections and recommended a number of changes that would be implemented (see Section 2). This results in an additional £220k per annum of income (80% applied in Year 1). In order to help facilitate this a £30k capital investment to convert the community room into a group exercise and functional training space has been incorporated as well as a full re-equipping of the fitness facilities across all four sites.

Swimming

5.32 Based on the improvements set out in Section 2, we have projected a £152k increase in swimming income (mainly as a result of increased swimming lessons). To fund this, we have allocated £40k per annum of additional staffing costs (aquatics development coordinator and teaching costs). We have estimated that a capital investment into equipment of £36k is required for this programme offer.

Gymnastics

5.33 We have projected that a new gymnastics programme would bring in £124k of income and have included £74k per annum of staffing expenditure and £2.5k per annum of equipment expenditure. See Section 2 for further details. We have estimated that a capital investment into equipment of £21k is required for this programme offer.

Secondary Spend

5.34 Having analysed the secondary spend level (mostly retail and vending profit), we have included an increase from £0.09 per visit to £0.20 per visit to bring the income closer to (but still below considering the lack of a café offer) industry averages. We have also incorporated cost of sales on this income at 50%.

Utilities

5.35 Expenditure on utilities is currently high so we have incorporated a 20% reduction based on trends seen on other procurement processes throughout the country. Section 2 provides more details on some of the steps that would be implemented to achieve this.

Marketing

5.36 Marketing spend is currently extremely low so we have included additional expenditure at 2% of income to bring this in line with industry averages and help support the achievement of the projected additional income.

Irrecoverable VAT

5.37 Irrecoverable VAT has been included on the additional vatable expenditure in line with the principles set out previously in this Section.

Central overheads, Profit and Contingency

5.38 Central overheads and profit / contingency have been incorporated at a combined 8% of the additional income forecast, in line with industry averages for external operators.

CAT projections

5.39 We have analysed the structural changes that will need to be put in place in order for a community organisation(s) to manage Bakewell and Wirksworth as independent facilities. A summary of our financial projections is set out in the table below.

Table 5.5 - CAT Financial Projections

All £	2018/19	2019/20	2020/21	2021/22	2022/23
Net VAT Impact	- 26,813	- 26,813	- 26,813	- 26,813	- 26,813
NNDR Saving	- 25,833	- 25,833	- 25,833	- 25,833	- 25,833
Staffing	54,000	54,000	54,000	54,000	54,000
Lifecycle Provision	80,000	80,000	80,000	80,000	80,000
Central Support Function	18,655	18,655	18,655	18,655	18,655
Contingency	12,437	12,437	12,437	12,437	12,437
Additional Health and Fitness Income	- 50,112	- 50,112	- 50,112	- 50,112	- 50,112
Additional Marketing Expenditure	13,439	13,439	13,439	13,439	13,439
Total	**75,773**	**75,773**	**75,773**	**75,773**	**75,773**

5.40 The table shows that we do not think it is likely that a community organisation(s) will be able to significantly reduce the cost of operating the facilities on an independent basis. Our projections suggest that the net direct cost of operating the facilities may actually increase by circa £76k per annum.

5.41 These projections are exactly the same as under Option B so we have not re-provided the assumptions behind them in this section. Please see the text under Option B for more details.

5.42 We acknowledge and have highlighted (under Option B) that there are potentially areas where savings could be made however this would only be likely to bring the option back in line with the current cost of service and not offer a significant saving.

5.43 The issue for the Council is that it would be attempting to transfer assets that have a significant cost of operation but have limited opportunities for generating increased income (e.g. low latent demand and limited invest to save options) and limited opportunities for expenditure efficiencies (e.g. NNDR and VAT savings). With limited options for these two levers, it will be difficult for a community operation to take on these assets at a reduced net cost without making limiting opening hours / access and making redundancies / seeking to move to a limit staffing volunteer model. These options may decrease the net cost but would offer a significantly curtailed service to residents within the catchment areas of the two facilities.

5.44 In addition to the on-going revenue cost associated with this option, it is anticipated that any community organisation that takes on the management of the facilities on an asset transfer basis would expect the Council to make an upfront capital investment into the buildings to reduce their on-going operational risk. We have included in the summary mode below a sum of £21,641 per annum in debt costs which equates to an upfront investment of £184,601 by the Council. This covers the cost of the condition survey works identified in the surveys from 2014 plus an uplift of 50% to account for new items and /or additional upgrades to the facilities e.g. redecorations. New condition surveys would be required in order to confirm the estimated capital investment required but it is unlikely that a community organisation would take on these facilities without such an upfront capital investment (based on the long-term liabilities and risks associated with the facilities).

5.45 The next section analyses potential savings in central support costs under this option.

Central Support Costs

5.46 With the transfer of the Arc and Ashbourne to a third-party leisure operator who will have their own central support costs, it is very likely that many of the current central functions of the Council will not be rechargeable to leisure and will either have to be saved or redistributed to the remaining functions and services within the Council.

5.47 One or potentially two new organisations will be managing Wirksworth and Bakewell under this option. These organisations will still require central support services such as payroll, finance, HR etc. and may purchase these back from the Council in the short term (on the assumption that they are new organisations without these structures and services already in place). However, we would not anticipate that such an arrangement would be likely to continue beyond an initial 12-24 months (if it happens at all) as the organisation(s) would be able to procure these services more cost effectively externally than from the Council. For this reason, we have assumed that the asset transfer option would not involve the community organisation(s) procuring central support from the Council.

5.48 An analysis has been carried out on the likely impact on savings the Council will be able to achieve as a result of this option and this can be found in Appendix E to this report. The maximum estimated amount of savings is £103,583 per annum although this will not be an automatic saving and will rely on the Council restructuring its central support services in order to realise the saving.

5.49 As a result of the above alternative arrangements that the external organisations would make for the provision of central support services, it is assumed that the savings would be similar to Option A because the Council is no longer providing central support services to any of the four facilities.

5.50 The community organisation(s) cost allocation for central support / head office costs are incorporated within the structural savings set out above.

5.51 The operator's cost allocation for central support / head office costs is £41k based on the industry average of 3% of income. We have also included a profit / contingency margin of £69k (5% of income) in line with industry averages.

Implementation Costs

5.52 Implementing this option will incur a number of costs for the Council over a circa 16-month period until April 2018. These costs are explained and estimated in the table below.

Table 5.6 - Implementation Costs

Item	Description	Estimated Cost
Condition surveys	Condition surveys will definitely be required under this option. These will be especially important for any community organisation(s) attempting to take on responsibility for the assets as they may not have the asset management experience or necessary financial resources to be able to manage unforeseen problems with the buildings. We have increased this provision under this option as visual surveys are normally sufficient under Option A but more detailed instructive surveys may be required under this option in relation to Wirksworth and Bakewell.	£40,000
Consultant support	Support is likely to be required to help the Council manage and advise on the procurement process as per Option A and also to support the business case development, negotiations and document drafting in relation to the community asset transfer(s).	£50,000
Legal support	Legal support is likely to be required in relation to drafting and negotiating legal documents (leases, contracts, funding arrangements etc.) for both the procurement process and the community asset transfer(s).	£50,000
Total		**£140,000**

5.53 It can be seen from the table that the total estimated implementation cost for the Council is £140,000 under this option. This is an indicative cost to an extent as it will depend on how much internal officer expertise the Council can give to the project, what type of procurement process is followed (e.g. whether it involves multiple single or multiple bid stages, the amount of dialogue / negotiation permitted etc.) and how many parties are involved in the community asset transfer(s).

5.54 This estimate does not include the cost of Officer time which will be a crucial part of the process. There will need to be a lead officer who oversees the process on a regular basis and more variable input from Council officers such as legal, procurement, finance, HR, senior management team etc. The input required from Officers will definitely increase compared to Options A and B as Option C involves at least two distinct processes / negotiations.

Summary of Financial Savings

5.55 A summary of the financial savings under this option (combining both the external leisure operator and asset transfer options) is set out in the table below.

Table 5.7 - Summary of Financial Savings - Package Option C

All £	2018/19	2019/20	2020/21	2021/22	2022/23
Outsourcing of Leisure Facilities					
Operating Income	-1,376,001	-1,376,001	-1,376,001	-1,376,001	-1,376,001
Operating Costs	1,747,127	1,747,127	1,747,127	1,747,127	1,747,127
Net Operating Costs	371,126	371,126	371,126	371,126	371,126
Adjustments:					
Central Overheads (% of income)	41,280	41,280	41,280	41,280	41,280
NNDR Savings	-171,565	-171,565	-171,565	-171,565	-171,565
Change in Services	-277,805	-369,318	-369,318	-369,318	-369,318
Debt Costs	48,533	48,533	48,533	48,533	48,533
Impact on Income from VAT	-189,409	-189,409	-189,409	-189,409	-189,409
Irrecoverable VAT	123,757	123,757	123,757	123,757	123,757
Profit and Contingency (% of income)	68,800	68,800	68,800	68,800	68,800
Other Council Costs (incl. NNDR cost)	85,782	85,782	85,782	85,782	85,782
Total Cost of Outsourcing Services	**100,500**	**8,987**	**8,987**	**8,987**	**8,987**
In House Management					
Operating Income	-74,039	-74,039	-74,039	-74,039	-74,039
Operating Costs	177,473	177,473	177,473	177,473	177,473
Net Operating Costs	103,434	103,434	103,434	103,434	103,434
Changes to Service	0	0	0	0	0
Debt Costs	0	0	0	0	0
Total Cost of In-House Managed Services	**103,434**	**103,434**	**103,434**	**103,434**	**103,434**
Community Asset Transfer (CAT)					
Operating Income	-621,844	-621,844	-621,844	-621,844	-621,844
Operating Costs	885,687	885,687	885,687	885,687	885,687
Net Operating Costs	263,843	263,843	263,843	263,843	263,843
Changes to Service	75,773	75,773	75,773	75,773	75,773
Debt Costs	21,641	21,641	21,641	21,641	21,641
Total Cost of Community Asset Transfers	361,256	361,256	361,256	361,256	361,256
Total Cost	**565,190**	**473,677**	**473,677**	**473,677**	**473,677**
Current Budgeted Cost	738,402	738,402	738,402	738,402	738,402
Additional Cost/(Saving)	**-173,210**	**-264,730**	**-264,730**	**-264,730**	**-264,730**

5.56 It can be seen from the table that the Council could save £173k in Year 1, rising to £265k from Year 2 onwards. This excludes the one-off implementation costs of circa £140k and potential central support savings of circa £104k per annum.

5.57 The in-house costs included in the table are the costs of the sports development service which have not been assumed to generate savings.

5.58 It is important to note that all of this projected saving is being contributed by a reduction in the management fee offered by the leisure operator for the cost of managing the Arc and Ashbourne. The advantage of this option over Option B is that these savings would be guaranteed by the operator through the fixed management fee for a 10 – 15 year period and therefore have less risk attached to them than the projected in-house savings under Option B.

5.59 The proposed community asset transfers do not contribute a net improvement to the Council's financial position as we do not see a way in which they could be operated by a community organisation(s) at a reduced cost without severely impacting on the service on offer to the public by restricting access and reducing costs.

Implementation Timetable

5.60 This option is the most complex of the three options to implement as it involves two (possibly three) separate processes:

- A procurement process to identify an operator for the Arc and Ashbourne. This process would take circa 9 – 12 months and would involve Council officer time and potential expenditure on external legal and consultancy support. The earliest time the contract could start would be 1st April 2018 (assuming a decision to proceed in December 2016);
- An implementation process to identify (and potentially establish if necessary) a viable organisation(s) that will take on the management of Bakewell and Wirksworth via community asset transfers. This will potentially be two separate processes if there are separate local organisations in each area rather than one organisation for both facilities.

5.61 These two (or three) processes would need to run concurrently and would involve significant work and expense for the Council in order to implement the options.

Summary of Package Option C

5.62 Option C produces a projected saving of £173k in Year 1, rising to £265k by Year 5. Year 1 is assumed to be £2018/19 following a circa 16-month implementation process during which an asset transfer process would be required to take place

5.63 This excludes the one-off implementation costs of circa £140k which would be incurred primarily in 2017/18. There is also the potential to make central support savings of circa £104k per annum however this relies upon a Council-wide review of the structure of its central support function and so is not a guaranteed saving.

5.64 It is important to note that all of this projected saving is being contributed by a reduction in the management fee offered by the leisure operator for the cost of managing the Arc and Ashbourne. The advantage of this option over Option B is that these savings would be guaranteed by the operator through the fixed management fee for a 10 – 15 year period and therefore have less risk attached to them than the projected in-house savings under Option B.

5.65 The proposed community asset transfers do not contribute a net improvement to the Council's financial position as we do not see a way in which they could be operated by a community organisation(s) at a reduced cost without severely impacting on the service on offer to the public by restricting access and reducing costs.

5.66 The major concern with this option is the viability of the asset transfer process for Wirksworth and Bakewell. Sport England guidance on asset transfers identifies 3 major factors that make assets suitable for transfer to local community organisations:

- The asset is currently underused but there is clear potential for growth in usage;
- The asset could be more efficiently or effectively run by a community based organisation e.g. increasing opening hours, lowering overall costs and / or increasing the total numbers or types of people who would use it;
- Transferring the asset to a community based organisation would also achieve other community benefits e.g. by addressing deficiencies in the current demographic profile of users or maximising healthy living outcomes in areas of defined deprivation.

5.67 Based on our analysis, there is not significant potential for income growth on these sites as the opportunities for capital investment to improve the service are limited. Combining this with the lack of structural fiscal savings (in relation to NNDR and VAT) and the limited access to economies of scale that community trusts would have means that the potential to make these facilities financially viable under a CAT model is limited.

5.68 Whilst there are potential local organisations interested in being a part of the solution, it is doubtful that a new organisation made up of these individuals / representatives of organisations could manage the facilities any more effectively than the Council already does without reducing the service on offer to the local communities.

5.69 The third test set by Sport England in relation to community involvement and addressing local challenges is definitely one of the key advantages of this option however there are also disadvantages relating to the fragmentation in the service on offer to residents of the District as there would be varying operators across the four facilities with differing levels of resources and abilities to invest in the service. There is a risk that the facilities in Wirksworth and Bakewell will become the 'poor relation' and members of these facilities would no longer have the option to utilise their memberships to use the other two facilities as well.

6. Risk Analysis

6.1 This section identifies the primary risks to the Council (both now and in the future) that may arise and how they may differ depending on the management model / option selected. These include a range of different types of risks including legal, financial, operational, reputational etc.

6.2 Risk management is about the forecasting and evaluation of risks together with the identification of procedures to avoid or minimise their impact. Each option offers the Council a different level of retained / transferred risk and the Council will need to consider where its priorities lie and how best to manage these risks under each option.

6.3 The principles of risk management are generally that risks should be allocated to the party best able to manage the risk and, on this basis, the Council may still retain some risks. This is a well-established principle as some risks may have a high value (i.e. potential cost if they occur and therefore risk pricing premium) but a very low probability of occurring. In such examples, the Council could be comfortable with retaining some element of risk. For example, the assets remain owned by the Council and the responsibility for lifecycle replacement of the building structure may therefore best sit with the Council within a 10-15 year agreement. The principle being that, the risk of the event occurring (i.e. major building structure failure) is low but the cost of the operating partner (whoever it is) pricing for this risk within a short-term contract is potentially high.

6.4 This approach provides improved value for money, as the operator does not need to include any contingency or additional provisions within the annual management fee for risks that they cannot fully control and it ensures that the Council is not paying the operator for a risk that it may be best able to manage itself.

6.5 Conversely, day to day operating risks such as income decreasing because of a competitor opening locally or expenditure increasing because equipment unexpectedly requires fixing, is an operating risk that the operating partner is required to control and react to (and bear the cost of).

6.6 It should be remembered that, under the current in-house model, the Council retains all risks and therefore any level of risk transfer under the variant options is a positive movement compared to the status quo. For example, at the present time, day to day risks occurring would result in the cost of the service increasing for the Council but under the variant management options there would be no increase in the cost of the service because the operating partner is bearing this risk. The level of risk that an operating partner can bear / carry (and therefore the impact of that risk on the Council if it occurs) will depend on which management model is selected and who the operating partner is.

6.7 The operator would need to find a balance between meeting customer expectations within the financial constraints imposed upon it from the cost of providing the service and managing the risk. Service quality and risk are however directly linked. By managing the risk through maintaining buildings, replacing equipment at the end of its economic life, focussing on the operating costs that are important to delivering income and providing services that meet the needs of customers, a quality service is more likely to ensue.

6.8 We have set out in the table below a number of the key risks relating to the future management of the leisure facilities and the position under each management delivery option.

Table 6.1 - Key Risk Summary Under Each Option

Risk	Option A	Option B	Option C
Non-Achievement of the Business Plan (i.e. increase in the net cost of running the facilities).	This is the operator's risk as the Management Fee that the Council pays / receives is fixed for the length of the contract. The operator will have other contracts with local authorities and central reserves in order to help it absorb this risk if it does occur.	For the Arc and Ashbourne this would be the Council's risk as it would still be managing the facilities in-house. For Wirksworth and Bakewell this would be the risk of the community organisations. However, as the organisations will be new and will not have sufficient financial reserves, there is an increased risk that non-achievement of the business plan would lead to the facilities being handed back to the Council.	For the Arc and Ashbourne this would be operator's risk as the Management Fee that the Council pays / receives is fixed for the length of the contract. For Wirksworth and Bakewell this would be the risk of the community organisations. However, as the organisations will be new and will not have sufficient financial reserves, there is an increased risk that non-achievement of the business plan would lead to the facilities being handed back to the Council.

Risk	Option A	Option B	Option C
Major Asset Failure results in significant investment required into the building(s).	This risk typically remains with the Council although it is possible to fully transfer this risk within the contract but it comes at a cost premium.	For the Arc and Ashbourne this would be the Council's risk as it would still be managing the facilities in-house. For Wirksworth and Bakewell this would be the risk of the community organisations. However, as the organisations will be new and will not have sufficient financial reserves, it is likely that this risk occurring could lead to the facilities being handed back to the Council unless sufficient lifecycle reserves have been accumulated.	For the Arc and Ashbourne, the position is as per Option A. For Wirksworth and Bakewell this would be the risk of the community organisations. However, as the organisations will be new and will not have sufficient financial reserves, it is likely that this risk occurring could lead to the facilities being handed back to the Council unless sufficient lifecycle reserves have been accumulated.
Utilities tariff (price) increases lading to an increase in costs.	This risk is typically fixed for 2 – 3 years with a review process that could lead to an increase in cost for the Council every 2 – 3 years set out in the contract. It is possible to fully transfer this risk (or share it) within the contract but it comes at a cost premium.	For the Arc and Ashbourne this would be the Council's risk as it would still be managing the facilities in-house. For Wirksworth and Bakewell this would be the risk of the community organisations.	For the Arc and Ashbourne, the position is as per Option A. For Wirksworth and Bakewell this would be the risk of the community organisations.
Utilities consumption increases leading to an increase in costs.	This risk sits the operator. No increase in cost for the Council.	For the Arc and Ashbourne this would be the Council's risk as it would still be managing the facilities in-house. For Wirksworth and Bakewell this would be the risk of the community organisations.	For the Arc and Ashbourne, the position is as per Option A. For Wirksworth and Bakewell this would be the risk of the community organisations.

Risk	Option A	Option B	Option C
Risk on pensions contributions rates increasing	An external operator will either offer staff a broadly comparable pension scheme or be required to become an admitted body and the staff stay within the LGPS. If the staff are within the operator's broadly comparable pension scheme, this risk sits with the operator. If the staff remain within the Local Government Pension Scheme (LGPS), this risk typically sits with the Council. If the operator becomes an admitted body, existing staff remain within the LGPS but the scheme is operated as a 'closed scheme' and new joiners in the future are offered a broadly comparable scheme. In the long-term, this may also impact on the level of the Employers Contribution that the Council is required to make for their remaining staff. It will require a revised valuation, taking into account the number of remaining staff, their age, salaries etc. to determine the amount that is required to be recovered by the Council and likewise the Employers Contribution rate will need to be determined for the staff transferring to the new admitted body scheme.	For staff at the Arc and Ashbourne this would be the Council's risk as it would still be managing the facilities in-house. For Wirksworth and Bakewell the risk would potentially transfer to the community organisations but they may seek a risk share similar to Option A. The same principle applies relating to the risk that the Council's Employer's Contribution for its remaining staff will increase, although the value of the risk is likely to be lower than under Options A and C as only staff from two of the four facilities are transferring and therefore the potential financial impact should be lower.	For the Arc and Ashbourne, the position is as per Option A. For Wirksworth and Bakewell the risk would potentially transfer to the community organisations but they may seek a risk share similar to Option A. The same principle applies relating to the risk that the Council's Employer's Contribution for its remaining staff will increase (see Option A).

Risk	Option A	Option B	Option C
Potential future pension scheme deficit	An external operator will either offer staff a broadly comparable pension scheme or be required to become an admitted body and the staff stay within the LGPS. If the Council requests that the operator becomes an admitted body, the scheme will be treated as 'fully funded' and any deficit on the scheme at the commencement and expiry of the contract will be the responsibility of the Council (as long as the deficit has not been caused by the operator e.g. by not making payments or making staff redundant etc.).	The same principle applies as under Option A i.e. the Council will be responsible for any pensions deficit.	The same principle applies as under Option A i.e. the Council will be responsible for any pensions deficit.
The service quality (e.g. cleanliness) is poor leading to potential reputational damage.	This risk sits with the operator however it clearly also reflects on the Council's reputation. There would be regular meetings (monthly usually) between the Council and the operator to monitor and review performance. The Council could need to use the performance monitoring system within the contract to incentivise the operator to improve if necessary as it links poor performance to financial deductions for the operator.	This risk sits with the Council for the Arc and Ashbourne as it would still be managing the facilities in-house however it is easier to manage as the Council directly employs the staff and is responsible for the service quality. For Wirksworth and Bakewell the risk would be with the community organisation although there may be some reputational damage to the Council as per Option A. The Council not have the same contractual measures for controlling and penalising poor performance under Option B as it would do under Option A.	For the Arc and Ashbourne, the position is as per Option A. For Wirksworth and Bakewell, the position is as per Option B.

Risk	Option A	Option B	Option C
Skills and experience of the management team are lacking leading to poor service quality and financial performance.	This risk sits with the operator although also impacts on the reputation of the Council. The risk is lower under this option as the Council will have carried out a competitive tendering process to identify the operator and will be working with a very experience leisure facility operator.	This risk sits with the Council for the Arc and Ashbourne and could be controlled as it would still be managing the facilities in-house. For Wirksworth and Bakewell the risk would be with the community organisation although there may be some reputational damage to the Council as per Option A. The risk is extremely high under this option as it is unlikely that the management team would have significant experience of managing complex leisure assets.	For the Arc and Ashbourne, the position is as per Option A. For Wirksworth and Bakewell, the position is as per Option B.
Potential for variable service quality and access to occur across the District.	The risk is minimal under this option as there is one operator working across the District and equal access for residents would apply across all four facilities.	The risk is high under this option due to the fragmentation of the service through the different management models in place. The risk is potentially lower under this option than under Option C as the Council can control it to an extent by working closely with the community organisation running Wirksworth and Bakewell.	The risk is high under this option due to the fragmentation of the service through the different management models in place. The risk is highest under this option as the Council will find it difficult to control how well the different parties work together and the variance in the quality of the service is likely to be highest as the operator would be likely to invest in the Arc and Ashbourne to improve the service but the community organisations would struggle to provide similar investment for Wirksworth and Bakewell.

Risk	Option A	Option B	Option C
Ability for sports development team to work closely with the leisure facilities.	There is a risk relating to this under this option as the Council will no longer manage the facilities directly themselves however can be mitigated by ensuring that the correct controls on access for sports development activities are put in place with the contract and mandating the operator to work closely with the Council's sports development service to help deliver the Health and Wellbeing Strategy. This is a common approach in such contracts and delivering health outcomes is becoming a major focus for leisure operators in light of national government strategy so this risk is perhaps not as significant as it may first appear.	No risk in relation to the Arc and Ashbourne as the Council would still be managing the facilities in-house. For Wirksworth and Bakewell this would be a risk area for the Council however it would seek to mitigate this by developing a close partnership with the community organisations. As they would be not for profit organisations it is hoped that the risk could be minimised.	For the Arc and Ashbourne, the position is as per Option A. For Wirksworth and Bakewell, the position is as per Option B.
Equipment not maintained properly and not replaced.	This risk sits with the operator but could be seen to be a reputational risk for the Council indirectly. However, the quality of equipment is directly linked to the perception of customers and the ability to attract new users for leisure operators so this is normally an area they invest heavily in. Unlikely to be a significant risk in light of this.	This risk sits with the Council in relation to the Arc and Ashbourne but is controllable (albeit at a cost) as the Council would still be managing the facilities in-house. For Wirksworth and Bakewell this would be a risk area for the Council in terms of its reputation (indirectly) and the service on offer to residents. It would be hoped that the community organisations would recognise the value of investing in and maintaining equipment (budgets allowing).	For the Arc and Ashbourne, the position is as per Option A. For Wirksworth and Bakewell, the position is as per Option B.

Risk	Option A	Option B	Option C
The ability to recognise, react to and implement changes in response to changing trends in the industry.	This would be a key focus for a leisure operator so would not be a significant risk for the Council as the operator would be likely to continually look to react to trends in the market and invest accordingly in order to attract and retain users and therefore maintain and increase income levels.	This risk sits with the Council in relation to the Arc and Ashbourne but is controllable as the Council would still be managing the facilities in-house although it may not have the expertise and resources of an external operator under Option A in order to react to changes in the industry. For Wirksworth and Bakewell this would be a risk area for the Council in terms of its reputation (indirectly) and the service on offer to residents. It would be hoped that the community organisations would be able to react to changes in the market but the level of leisure-specific expertise amongst the management team may be more limited and access to funds to invest would also be likely to be limited.	For the Arc and Ashbourne, the position is as per Option A. For Wirksworth and Bakewell, the position is as per Option B.

6.9 The table sets out a number of key risks that the Council will need to be aware of in the future once it has implemented the change in the management model for the facilities. Each risk has ways in which it can be minimised, mitigated and controlled which we have tried to highlight in the table. The Council should bear these risks in mind when it takes its decision on the preferred option and develop a detailed risk matrix in order to mitigate any risk when it implements the preferred option.

7. Sports Development Approach

Introduction

7.1 Council Members shortlisted options that retained the sports development function in-house at the previous stage of this work. This report has therefore predominantly concentrated on the shortlisted options for the management of the Council's leisure facilities however this does not mean that the sports development service has to continue in its current format.

7.2 This section sets out a high level overview of options for members to consider regarding the future structure of the sports development service.

Service Context

7.3 The sports development service delivers outreach activities in the community such as the Village Games initiative, cycling and walking programmes and club development activities. The aim is to encourage inactive residents that don't currently engage with the Council's four leisure facilities to become active and start participating in physical activity. Ideally, this will lead to these people becoming physically active on an on-going sustained basis and will bridge the gap to the Council's leisure facilities so that they become regular users of the centres.

7.4 The geography of the District with large rural areas, many small remote villages and limited transport links in some areas means that rural isolation can be an issue that the sports development service plays a major role in addressing by bringing services out to the residents. Health aspects are also a major focus for the team. Although the population is generally a healthy one there are health issues (particularly relating to the small pockets of deprivation in the main towns) and the population profile is an ageing one.

7.5 The majority of the sports development activities are delivered out in the community e.g. in village halls, schools, parks etc. although some of the activities are delivered in the leisure centres e.g. Active Everyone offers reduced rate exercise classes within the leisure centres to encourage inactive people to get fit and walking football is also delivered in the leisure centres (within sports halls).

7.6 The service is headed up by a Community Development and Wellbeing Officer with 50% of the role designated for community development activities. This role is supported by a full-time Sport and Health Development Officer who manages a team of five individuals (a mix of full and part-time posts and an apprentice) who each have responsibility for individual programmes / areas. The majority of these posts beneath the Sport and Health Development Officer are funded through external funding (e.g. School Sports Partnership, Derbyshire Sport, Public Health) although the Council also contributes funds towards the cost of some of these roles. A number of casual instructors and coaches also assist with the delivery of the outreach work.

7.7 A key issue that the Council is facing is the cessation of funding streams that currently fund these posts. This has resulted in the loss of two of these members of staff in recent weeks. Moving forward, the Council needs to decide if it will continue with the sports development service in its current format or invest in and restructure the service (potentially utilising some of the savings that can be realised from the management of the leisure facilities to do this).

7.8 Consideration of the decision needs to be linked to the decision that is taken on the future management model for the leisure facilities as the role of the sports development service and the way in which it operates in the future is linked to the way in which it will work with the management vehicle(s) for the leisure facilities.

7.9 The section below summarises some high level options for the structure of the sports development service in the future. They should be considered in light of the Council's Health and Wellbeing Strategy which has been produced since the completion of the first phase of this leisure review work. This strategy places a high importance on the positive impact that physical activity can have on the health and wellbeing (both physical and mental) of residents.

7.10 The strategy identifies 3 specific overarching priorities:

- To improve wellbeing in areas of disadvantage;
- To improve the wellbeing of vulnerable groups;
- To tackle wellbeing challenges associated with rurality.

7.11 It is clear that these priorities cannot be delivered through the provision of the four leisure centres alone. The outreach work provided by the sports development service is crucial to helping achieve them. Following discussion with the Council's sports development team, we have summarised four potential options.

Option 1

7.12 This option offers the status quo i.e. the Council continues to deliver and resource the service in the way that it currently does, albeit that it is dependent on external funding to deliver many of its activities. As mentioned previously, this approach has led to the loss of two members of staff recently due to the end of two grant funding streams and is clearly a more of a 'hand to mouth' existence.

7.13 Continuing with this approach may be more cost effective in terms of not spending money but is unlikely to deliver the same health outcomes and return on investment as the team will be unable to continue to deliver the same level of service to residents except in times where short and medium term funding streams arise. There is clear evidence nationally regarding the cost of inactivity and the health and economic benefits of physical activity so the benefits of investing in the service need to be considered in that context.

7.14 If the Council is no longer operating the leisure facilities, the sports development service will need to liaise with external organisations regarding opportunities for retaining / developing links between the service and the facilities and the pricing and programming of activities etc. If the Council follows an option that involves a leisure operator managing the facilities on a contract, it will be able to mitigate this risk to a large extent by specifying that the operator works with the Council's in-house team to help deliver sports development services and protects specific times, programmes and prices in relation to access to the facilities in order to help achieve the aims of the Council's Health and Wellbeing Strategy. This is a common approach in modern leisure management contracts and would be a way in which the Council could use the contract to help deliver on its wider social outcomes.

Option 2

7.15 Option 2 is similar to the way in which the service currently operates but adds a second directly employed full-time sports development (health and wellbeing) officer to help the Council move away from its reliance on external funding. The Council would follow the recruitment model of fixed term contracts to deliver on Public Health and Sport England priorities, where they match with its priorities (e.g. W4H, Inactivity Fund etc.).

7.16 The additional sports development officer would allow the service to focus directly on the delivery of the Council's Health and Wellbeing Strategy without worrying about external funding cuts.

7.17 Similarly to Option 1, if the Council continues to manage the leisure facilities in-house it could continue to control and strengthen the link between sports development and the leisure facilities but, if an external organisation(s) is now managing the leisure facilities, the Council will need to ensure its contractual documents and its relationship / partnership working with the future operator are strong and well-managed so that the sports development service does not suffer a detrimental impact on the delivery of its aims, targets and outcomes.

7.18 It is difficult to accurately project the cost impact of each option as any employees will also be working to raise money through grant funding and deliver schemes that could yield income which may help pay for the staffing costs employed by the Council. As a worst case scenario, the pure employment costs (without assuming any corresponding raising of income) are likely to result in an increase in cost of no more than £18k per annum based on a Grade 5 / 6 employee salary level plus on-costs.

Option 3

7.19 The third option builds on the structure that the Council has in place now, with more stability and a stronger commitment to addressing the health and wellbeing priorities identified in the Health and Wellbeing Strategy. This option adds two additional full-time health and wellbeing officers to the team. The aim being to deliver on the outcomes of the Health and Wellbeing Strategy whilst decreasing he reliance on external funding.

7.20 As with Option 2, the option to recruit people on fixed term contracts to deliver on Public Health and Sport England priorities, where they match the Council's (e.g. W4H, Inactivity Fund etc.), would still be required.

7.21 The likely maximum cost of this (before taking into account any 'return on investment') would be circa £36k per annum based on two grade 5 / 6 salaries and adding a provision for on-costs.

7.22 Depending which management option is approved, the focus for the team would either continue to join the community offer with the leisure facilities (if the Council retains management of any of the facilities i.e. Option B) or focus primarily on the community offer and less on links with facilities (Option A / C) although the measures by which the Council can still control and foster links with the facilities under all options have been highlighted earlier within this section.

Option 4

7.23 This final solution provides an enhanced level of resources and brings 'in-house' some of the existing roles which are externally funded to provide stability against national or local reductions / cuts in funding. Again, the focus for these roles will depend somewhat on which management option the Council selects but would be closely aligned to the priorities in the Council's Health and Wellbeing Strategy.

7.24 The Walking for Health role / scheme would become core-funded and treated as the main entry route to physical activity for people who aren't active and want to make the step. The Club Development role / scheme would continue to support a large section of sports clubs which contribute in a significant way to getting people active, especially young people. The role would broaden to include establishing better links with schools.

7.25 This option involves following the same structure as Option 3 (i.e. adding two full-time health and wellbeing officers at grades 5 / 6) and also employing two further members of staff who are currently only grant funded on fixed-term contracts:

- The Walking for Health Coordinator – Grade 5/6;
- The Club Development Coordinator (part time) – Grade 5/6.

7.26 The option to recruitment people on fixed term contracts to deliver on Public Health and Sport England priorities where they match the Council's would still be available, as under all options.

7.27 This option is likely to involve an additional fixed staffing cost for the Council of circa £63k per annum to bring these staff 'in-house' on permanent contracts. This is clearly the highest cost of all options in terms of increased staffing expenditure however does provide the greatest opportunity to focus on the delivery of the public health outcomes contained within the Health and Wellbeing Strategy.

Summary

7.28 The Council has decided that it wishes to retain the sports development service in-house however there are options for the size and scope of this service and how it delivers its work in the future. This section of the report has set out a range of broad options for the Council to consider as follows:

- Option 1 - Status Quo. Minimum cost but heavily reliant on grant funding and (potentially) lowest guaranteed impact on health outcomes;
- Option 2 – One additional full-time employee to reduce reliance on grant funding and deliver health outcomes;
- Option 3 – two additional employees to reduce reliance on grant funding and deliver health outcomes;
- Option 4 – as per Option 3 but bring in-house the Walking for Health and Club Development co-ordinators in order to protect the delivery of these schemes from funding cuts. Maximum cost but potential for maximum health outcomes impact.

8. Summary and Conclusions

Summary

8.1 The Council currently manages its leisure service on an in-house basis. This includes the delivery of the following four leisure facilities and the sports development service:

- Arc Leisure Matlock;
- Ashbourne Leisure Centre;
- Bakewell Swimming Pool;
- Wirksworth Leisure centre.

8.2 The net direct cost of providing the leisure facilities and the sports development service increased significantly in 2015/16 from £644k (14/15) to £738k. Over the three previous years the net direct cost of the service had varied between £679k and £860k.

8.3 This demonstrates one of the key challenges facing the Council i.e. that it's current in-house management model is subject to outside market influences that are difficult to control (e.g. new competition emerging, building failures, utility tariff rates rising etc.) and therefore projecting and then consistently achieving year on year revenue budget savings is a difficult thing to do. All of the risk under the current model sits entirely with the Council.

8.4 This report has assessed the shortlisted options for the future delivery of the Council's leisure management function. The options are listed in the table below.

Table 8.1 - Shortlisted Leisure Management Delivery Options

Option	Ashbourne Leisure Centre	Bakewell Swimming Pool	ARC Leisure Centre Matlock	Wirksworth Leisure Centre	Sports Development
Option A	Outsourced	Outsourced	Outsourced	Outsourced	In-House
Option B	In-House	CAT	In-House	CAT	In-House
Option C	Outsourced	CAT	Outsourced	CAT	In-House

8.5 A brief description of each option is set out below.

Option A

8.6 This option would involve the Council no longer managing the four leisure facilities directly. Instead, the Council would manage a competitive tender process following EU procurement regulations which would result in a specialist leisure management operator winning a contract to manage the facilities for a fixed length of time, likely to be 10 – 15 years.

8.7 In exchange for this contract, the operator would deliver the service in accordance with the Council's requirements (set out in a Services Specification), taking the majority of the operating risks in relation to the facilities and offer the Council a fixed annual management fee (either reducing the Council's current deficit for the service or paying a positive annual management fee to the Council). The Council's role moving forward would be to manage the contract in a client role although the Council may still retain some risk in relation to lifecycle replacement (structure and plant) and utilities tariff increases.

Option B

8.8 Option B would involve the Council no longer managing Wirksworth and Bakewell in-house. It would only retain the direct management of the Arc and Ashbourne on an in-house basis. The Council would still retain direct control over the operation of the Arc and Ashbourne and would retain all income and incur all expenditure as it currently does. The major change under this option would be in relation to the management of Wirksworth and Bakewell and how these two facilities interact with the two facilities remaining under direct Council management.

8.9 The Council would seek to carry out community asset transfers for the management of Wirksworth and Bakewell. This would involve finding or establishing suitable community organisations to take on the management of these two facilities (either one organisation for both facilities or separate organisations for each facility).

8.10 Assuming a suitable organisation(s) could be identified to manage the facilities and the permission of the landowners was gained, the facilities would be leased to the organisation(s) for a defined period of time. The lease would typically be 25 years or longer to provide the organisation with some long-term security although in reality the lease could be for whatever period the parties agreed upon.

8.11 The leases would set out the terms under which the organisation(s) would be required to manage the facilities and would restrict the organisations from changing the use of the facilities so that they continue to be made available for public sport and leisure use. The Council's current repairs and maintenance responsibilities would transfer to the community organisation(s) however it is unlikely that any community organisation would take the financial risk of this responsibility without the Council investing funds to upgrade the condition of the buildings before the lease is signed or granting the organisation a significant dowry in order to meet any liabilities in this regard.

Option C

8.12 This option would involve the Council no longer managing the four leisure facilities directly. Instead, the Council would manage a competitive tender process following EU procurement regulations which would result in a specialist leisure management operator winning a contract to manage the Arc and Ashbourne for a fixed length of time. At the same time, a Community Asset Transfer would be carried out for the remaining two facilities at Wirksworth and Bakewell. This is very similar to Option B however the outsourced contract approach from Option A replaces the in-house management of the Arc and Ashbourne.

8.13 The management of the Arc and Ashbourne would be delivered by an external operator who would be identified through a competitive tendering process in exactly the same manner as Option A, except the contract on offer will only include two of the four leisure facilities. All of the same key characteristics in relation to Option A would apply in relation to these two facilities.

8.14 Under this option the Council would also seek to carry out CATs for the management of Wirksworth and Bakewell. This would involve finding or establishing suitable community organisations to take on the management of these two facilities (either one organisation for both facilities or separate organisations for each facility) in the exact same way as detailed under Option B.

8.15 The Council would seek to carry out community asset transfers for the management of Wirksworth and Bakewell. This would involve finding or establishing suitable community organisations to take on the management of these two facilities (either one organisation for both facilities or separate organisations for each facility) on long-term lease arrangements. This would work in the exact same way as the community asset transfers under Option B.

Potential Operating Partners

8.16 A summary of the potential operating partners under each option is set out in the table below.

Table 8.2 - Potential Operating Partners

	Option A	Option B	Option C
Who would manage the facilities?	An experienced operator that specialises in the management of public sector leisure facilities would manage all four leisure facilities.	The Arc and Ashbourne would continue to be managed by the Council. Wirksworth and Bakewell would be managed by new community trusts that would need to be established and would potentially include representatives from interested local individuals / organisations / institutions.	An experienced operator that specialises in the management of public sector leisure facilities would manage the Arc and Ashbourne. Wirksworth and Bakewell would be managed by new community trusts that would need to be established and would potentially include representatives from interested local individuals / organisations / institutions.
Likely level of Interest?	Six of the seven major leisure operators in this market responded indicated strong interest in the opportunity. The list of these organisations is set out in Section 3 of this report. Interest is stronger in Option A than in Option C (i.e. with all four facilities rather than with only two facilities on offer).	There is not thought to be any existing organisations that would directly take on the management of the facilities but there is thought to be interest and capability from individuals and organisations in the local areas. The Swimming Pool Trust, Anthony Gell School, School Foundation and local health centre have all indicated interest in being part of / working with the new community organisation in Wirksworth but could not take on the entire responsibility. Bakewell would require a new	Six of the seven major leisure operators in this market responded indicated interest in the opportunity although they would prefer Option A rather than Option C (i.e. with all four facilities rather than with only two facilities on offer). Interest in the community asset transfer option is as set out under the 'Option B' column to the left.

	Option A	Option B	Option C
		organisation to be established and a recruitment process for trustees but there is thought to be enough social capital and skills locally to deliver this. The organisation could work closely in partnership with the new organisation in Wirksworth and the Wirksworth Swimming Pool Trust however it would not be the same organisation for both facilities as local Bakewell representation and knowledge is necessary.	

8.17 It is clear that there is significant interest in Option A and, as an established option in the market, following this route contains the least risk for the Council (in relation to market interest and identifying a suitable partner). Options B and C have potential solutions for the asset transfers however these solutions require the identification of suitable trustees / management teams (to supplement any interest already identified) which would require an advertisement / recruitment campaign at the next stage. The interest identified so far is also subject to the development of a viable business case (discussed below) and a number of pre-conditions relating to investment from the Council.

Financial Implications

8.18 We have analysed the current financial performance of the facilities and utilised the following in order to estimate financial projections for the future cost of the service under each option:

- Benchmarking of current performance to identify areas of income and expenditure that are under-performing;
- Structural fiscal savings (NNDR and VAT) available to different management models;
- A recent latent demand study on health and fitness memberships;
- Industry best practise and our team's experience of working on similar projects around the country;
- One of our consultant's experience and expertise from successfully bidding for and operating leisure contracts over the past fifteen years;
- Work with the Council's leisure facilities management team to help understand 'real world' savings that can be delivered by the in-house team.

8.19 A high level summary of the financial projections for each option are set out overleaf.

Table 8.3 - Option A Financial Projections

All £	2018/19	2019/20	2020/21	2021/22	2022/23
Total Cost of Outsourcing Services	274,854	159,190	159,190	159,190	159,190
Total Cost of In-House Managed Services	103,434	103,434	103,434	103,434	103,434
Total Cost of Community Asset Transfers	0	0	0	0	0
Total Cost	**378,288**	**262,623**	**262,623**	**262,623**	**262,623**

8.20 Option A results in a future projected net direct cost to the Council of circa £263k by Year 5. This is as a result of the operator significantly reducing the cost of service to the Council and guaranteeing this level through a fixed management fee. The retained in-house cost relates to the current cost of the sports development service.

8.21 This is not the maximum that the Council could save as the price would be set following a competitive tendering process and recent such processes in the industry have resulted in positive payments from operators to Councils. We have taken a prudent approach to the projections to ensure that the estimated savings are realistic and not over-ambitious however we believe that the actual savings achieved would probably exceed this level.

Table 8.4 - Option B Financial Projections

All £	2018/19	2019/20	2020/21	2021/22	2022/23
Total Cost of Outsourcing Services	0	0	0	0	0
Total Cost of In-House Managed Services	276,446	208,937	190,074	178,994	143,878
Total Cost of Community Asset Transfers	361,256	361,256	361,256	361,256	361,256
Total Cost	**637,703**	**570,193**	**551,330**	**540,250**	**505,134**

8.22 Option B results in a future projected net direct cost to the Council of circa £505k by Year 5. This is as a result of the in-house team reducing the cost of service to the Council through making a positive return on the proposed investment into and improvements relating to the service. The risk is that this financial position is not guaranteed and is subject to external factors impacting on income and expenditure.

8.23 The asset transfer cost projections under this option actually show an increase in current costs so the Council would be financially better off by retaining Wirksworth and Bakewell in-house and attempting to make operational efficiencies themselves unless they are willing to work on a business case that makes savings for these two facilities by reducing the level of service on offer to the public. This also relies on establishing a new community organisation(s) and recruiting suitable trustees who are willing to take on the operation of the facilities on this basis.

Table 8.5 - Option C Financial Projections

All £	2018/19	2019/20	2020/21	2021/22	2022/23
Total Cost of Outsourcing Services	100,500	8,987	8,987	8,987	8,987
Total Cost of In-House Managed Services	103,434	103,434	103,434	103,434	103,434
Total Cost of Community Asset Transfers	361,256	361,256	361,256	361,256	361,256
Total Cost	**565,190**	**473,677**	**473,677**	**473,677**	**473,677**

8.24 Option C results in the cost of the service reducing to £474k by Year 5. This is as a result of the operator significantly reducing the cost of service to the Council and guaranteeing this level through a fixed management fee. The retained in-house cost relates to the current cost of the sports development service.

8.25 The asset transfer cost projections under this option actually show an increase in current costs so the Council would be financially better off by including Wirksworth and Bakewell in the package for the external operator unless they are willing to work on a business case that makes savings for these two facilities by reducing the level of service on offer to the public. This also relies on establishing a new community organisation(s) and recruiting suitable trustees who are willing to take on the operation of the facilities on this basis.

8.26 A comparison of the projected savings for the Council under each option is set out in the table below.

Table 8.6 - Financial Savings Under each Option

All £	Year 1	Year 2	Year 3	Year 4	Year 5
Current Cost	738,402	738,402	738,402	738,402	738,402
Option A Potential Saving	-360,110	-475,780	-475,780	-475,780	-475,780
Option B Potential Saving	-100,700	-168,210	-187,070	-198,150	-233,270
Option C Potential Saving	-173,210	-264,730	-264,730	-264,730	-264,730

8.27 It is clear that Option A will produce the Council with the greatest financial savings out of all of the options. It also includes the least risk for the Council relating to these figures as it is not managing the facilities itself or relying on negotiating a business plan with a community organisation in order to achieve savings. These figures do not include implementation costs and potential central support savings which are summarised overleaf.

Table 8.7 - Estimated Implementation Costs

All £ (one-off)	Option A	Option B	Option C
Implementation Costs	£75,000	£85,000	£140,000

8.28 Option A has the lowest implementation costs as there is only one process to follow (i.e. a procurement process) as opposed to Option C which has the highest cost because there are two processes to implement (i.e. a procurement process and asset transfer(s)). The implementation cost of Option B is projected to be marginally higher than Option A because of the potential requirement to work with two separate (potentially new) organisations and the likely need for more detailed (intrusive) condition surveys which are more expensive.

8.29 These costs do not include internal Council officer time which we would estimate to be highest under Option C. Depending on the complexity of the asset transfer process, Option B would potentially be more resource intensive than Option A although this depends upon a number of factors (e.g. resources of the interested parties).

8.30 The implementation processes for each option will take a similar length of time with all options being deliverable for a start on site date of 1st April 2018 although working must start immediately in order to achieve this. The key differences are the costs and the internal Council officer time required which differ significantly between the three options.

8.31 Option C is potentially the most complex implementation process with a procurement process and possibly two community asset transfers being undertaken. Option A provides the most straight forward implementation process as procurement processes for leisure management contracts are well established in the market and in law and therefore follow relatively set processes that can be implemented within the required timescale with less risk of failure than Options B and C.

Table 8.8 – Potential Central Support Cost Savings

All £ (per annum)	Option A	Option B	Option C
Potential Central Support Cost Savings	£103,583	£36,124	£103,583

8.32 As a result of any of these changes in the management model, the Council will have an opportunity to realise savings within the cost of its central support function. We have included these below the line rather than within the overall cost projections for each option as they are high level estimates at this stage and require further discussion with Council officers regarding the overall structure for central support services across all of the Council's functions.

8.33 Option A and C are projected as having greater levels of savings for the central support function because the Council will not be managing any of the four facilities on an in-house basis under these options.

Non-Financial Implications

8.34 Whilst financial savings are clearly a major issue for the Council, there are also a number of non-financial issues, risks, advantages and disadvantages associated with each option which have been set out in this report. The implications of these must clearly be understood when taking the final decision on the preferred management option to be implemented.

8.35 At a high level, contracting with an external operator will offer the Council a high level of risk transfer for a fixed financial sum over a 10-15 year period whilst ensuring a consistency of high quality service and equity of access for residents across the District (which may not be delivered through Options B and C).

8.36 However, there are understandable concerns linked to moving from an in-house operation to an outsourced approach linked to control and non-commercial focus. This option does rely on the Council drafting high quality contractual documents (particularly the Services Specification and associated Performance Monitoring System) to ensure that there is minimal loss of community focus and things like access for sports development activities, discretionary pricing, local club bookings, the delivery of health outcomes etc. are still delivered. Effective relationship building, partnership working and contract monitoring / management will be crucial to ensuring this option works well for the Council from a non-financial as well as financial perspective.

8.37 Option B (and to an extent Option C) has the potential in theory to maintain and increase a genuine focus on community outcomes from the facilities as some in-house control is maintained and, where it is not, local community trusts are operating the facilities. Aside from financial and sustainability concerns with the asset transfer option, the key non-financial concern (although it is linked to financial performance) is whether the quality of service will suffer as there is a risk that the organisations will not have the expertise, resources and experience to maintain a high quality of service.

8.38 In light of the financial projections set out previously, there is also a major concern that the only way to make the service sustainable will be to reduce the level of service (e.g. opening hours, staffing etc.) so impacting on the quality of service to residents. Under Options B and C this could also have the effect of skewing the level of service and access across the District as different organisations will be managing different facilities with different quality levels and access policies (particularly a risk for residents of Bakewell and Wirksworth).

Sports Development Options

8.39 Finally, the report has set out the options for the future structure of the sports development service under the in-house model.

8.40 The Council has decided that it wishes to retain the sports development service in-house however there are options for the size and scope of this service and how it delivers its work in the future:

- Option 1 - Status Quo. Minimum cost but heavily reliant on grant funding and (potentially) lowest guaranteed impact on health outcomes;

- Option 2 – One additional full-time employee to reduce reliance on grant funding and deliver health outcomes;

- Option 3 – two additional employees to reduce reliance on grant funding and deliver health outcomes;

- Option 4 – as per Option 3 but bring in-house the Walking for Health and Club Development co-ordinators in order to protect the delivery of these schemes from funding cuts. Maximum cost but potential for maximum health outcomes impact.

8.41 The decision that is taken on the structure of the sports development service will impact on the ability to effectively deliver the targets set out in the Council's Health and Wellbeing Strategy. These options can work with any of the management options discussed in this report however the focus may shift to an extent from all responsibility being delivered in-house to working in partnership with external operators. This could actually be a benefit for the Council as it could provide additional indirect resource to help it achieve its strategic health and well-being aims through the leisure management arrangements.

Conclusions

8.42 This report has set out an analysis of the three short-listed leisure management options requested by the Council following stage 1 of the leisure review work. It is clear from the findings that Option A will deliver the most financial benefits for the Council and transfer the most risk.

8.43 It does not appear that Wirksworth Leisure Centre and Bakewell Pool are the most appropriate facilities to undergo community asset transfers as the opportunities for fiscal savings are not significant and it will be very difficult for community organisations to deliver them sustainably without significantly reducing the level of service on offer to the community.

8.44 If the Council does wish to follow the community asset transfer route, the next steps would be to consult with the public and key stakeholder groups / organisations in order to identify trustees and build the business case in more detail (i.e. seek to identify ways in which the facilities could be delivered viably).

8.45 There appears to be the potential local interest in finding a sustainable community asset transfer solution but there would need to be significant work carried out over the coming months in order to establish who would run the facilities, negotiate terms and develop a business case that makes the facilities sustainable. This would involve the Council investing resources into a process that we believe is unlikely to identify a viable model that delivers significant financial savings for the Council.

8.46 We recognise from previous consultation with Council elected Members that there was some concern regarding a potential outsourcing of the management of the facilities. If this report does not allay those concerns sufficiently, the Council may find itself in a status quo position of continued in-house management (something that was previously ruled out at the last stage of the leisure review as not being a viable option).

8.47 Through the course of this stage 2 work, we have worked with the Council's in-house team to identify some potential savings that could be delivered in-house (under Option B). to that end, we acknowledge that there are recognisable savings that could be delivered under the current management model but the risk is that these savings are not guaranteed (as other uncontrollable factors could arise that further increases the net costs e.g. new competition etc.).

8.48 If Council Members are not willing to implement Option A (external outsourced management), we do not believe Options B and C are viable in terms of both delivering savings and improving the service and in light of the associated risks. This leaves the status quo position and trying to deliver the savings identified in this report on an in-house basis. If this is the position that the Council finds itself in, there is another model that has increasingly been adopted by in-house sport and leisure services over the last circa 12 months since we commenced this study.

8.49 This involves the establishment of an 'Authority Controlled Company'. Local authorities may, subject to certain statutory limitations, establish a company and undertake socio-economic and/or commercial activities. Under this scenario, the Council would establish a new authority controlled company and transfer the service into it. The company would operate the service and, if structured correctly, have access to VAT savings, but the Council would own and control that company (as opposed to setting up an independent charitable trust with its own board etc.).

8.50 Recent examples of setting up authority controlled companies in leisure within the last 12 months leisure include Newark & Sherwood District Council and also Broxtowe Borough Council (see Appendix A for a case study).

8.51 Whilst Members ruled out the establishment of a new company at the last stage of the leisure review, this option is somewhat different as the authority will own the company and therefore retain a level of control. It does have a number of disadvantages to it in that cost certainty and risk transfer are only really achieved to an extent as the Council owns and controls the company and therefore any financial problems faced by the company may mean that the additional costs revert back to the Council.

8.52 This report is not recommending the implementation of this approach over Option A (the recommended approach), however is suggesting that, if Members are not willing to implement Option A, this may provide a similar but more financially viable option than retaining the management in-house whilst allowing the Council to still retain a significant level of control over the management of the facilities.

8.53 Our clear conclusion however is that Option A is the most viable option and is recommended for implementation based on the outcomes of both stages of the leisure review work.

8.54 For further information and any queries relating to the contents of this report, please contact Damien Adams, Director of Consulting, by email at damienadams@fmgconsulting.co.uk.