



Leisure and Cultural Services Assessment and Management Options Appraisal

Gloucester City Council

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Leisure Services executive summary and recommendations

Introduction and background

- 1 Gloucester City Council has commissioned The Sport, Leisure and Culture Consultancy (SLC) to complete an independent leisure services assessment and management options appraisal to understand the Council's options for future delivery of the services.
- 2 The Council owns two leisure centres, GL1 Leisure Centre and Oxstalls Sports Park that are managed by Aspire Sports and Cultural Trust, created in 2008 from the Council's previous in-house team. The contract is primarily based on a lease with the Council holding landlord responsibilities and does not contain a detailed services specification. The lease is scheduled to end in September 2023.
- 3 Prior to the global pandemic in financial year 2018/19 the management fee to/from Aspire was £ zero and the annual turnover of the two leisure sites was £2.59 million. Like all leisure services nationally, the service has required funding support from the Council supplemented by Sport England's National Leisure Recovery Fund through the three national lockdowns. Council support has included loans and deferring payments for utilities.
- 4 It should be noted that **this report uses data from financial year 2019/20**, before the full impact of the pandemic impacted on leisure services. This means that the financial assessment in particular provides a comparison of management options but does not reflect how leisure services finances may look going forward
- 5 Also, this work took place during the Council's recovery from a cyber incident and as a result it was not possible to extract all data regarding the service.

Strategic framework

- 6 The Council's current strategic framework for leisure shows that there is currently a gap between the Council's ambitions in the Gloucester City Plans and service delivery in the two leisure centres.
- 7 The new Gloucester City Plan (2021 -2024) represents a **significant opportunity** to re-position leisure services, so they contribute towards the new priority of addressing inequality, specifically health inequalities.
- 8 At present the Council does not have a strategic approach to leisure, sport and physical activity which informs its commissioning arrangements with Aspire. This would normally be in the form of a services specification which includes clear outputs and key performance indicators (KPIs).

How effective are the Leisure Services?

- 9 The current leisure contract and the Council's performance management framework does not contain any KPIs. As a result, there are no formal expectations from the Council regarding the level of community engagement with the service or the quality of delivery. Contractually, Aspire need to adhere to the terms of the lease. This means it is difficult to monitor the progress of the service.
- 10 Positively, Aspire offers a range of services and interventions which are focused on providing social value to Gloucester residents including the City's largest swimming and swimming lesson programme. In 2019, Aspire launched a Health and Wellbeing Hub in GL1 working with health

partners including Gloucester Community Wellbeing Team, the 2gether Trust (physiotherapists specialising in mental health services), and Gloucestershire Care Services NHS Trust (Macmillan Cancer Rehabilitation Specialists). Many councils are aspiring to develop similar hubs, but few have actually achieved this.

- 11 There are some significant issues with GL1 which need to be considered before the Council commissions future management arrangements:
- The building is starting to age and may need substantial lifecycle and maintenance costs going forward – the Council has not yet carried out an asset condition survey to identify future costs.
 - The offer at GL1 needs to be reviewed identifying potential to invest in re-purposing parts of the building to attract those not using the current facilities.
 - Parking is a significant weakness, and the Council needs to make affordable/free access for leisure users to existing car parks a priority.

12 When assessing the effectiveness of the service, it could be said that the service is providing significantly more social value than the Council has contractually asked Aspire to deliver.

13 The Council and Aspire have worked together effectively to keep the service running through the pandemic.

How efficient are the Leisure Services?

14 The annual management fee as at 2018/19 was at £ zero and Aspire did not receive financial support from the Council. For centres with significant swimming facilities this represents a good outcome, particularly in the context of GL1 with its lack of parking and large footprint. However, it should be noted that this management fee was only made possible by Aspire supporting the service through its reserves.

15 Key financial efficiency ratios such as income recovery and the percentage of staff costs in relation to sales are what would be expected from a solid trust operation with the exception of management costs, which are proportionally high due to the lack of economies of scale associated with small leisure providers.

It should be noted that energy costs (heating and lighting) were £304K in 2019/20 for the Council's two centres. The current energy market could see increases of over 70% in future which means this is likely to have a significant adverse impact on the financial model in the future. GL1 is currently one of the most significant creators of carbon in the Council's asset portfolio.

Management options appraisal

16 Three core management options have been considered:

- **Local Authority Trading Company (LATC).** This would be an arm's length' organisation set up by the Council to run the facilities and services. A LATC which is often referred to as a "Teckal" company. These companies do not have charitable status, but as not-for-profit entities are able to benefit from similar tax exemption benefits to a leisure trust.
- **In-house management.** This approach is familiar to many local authorities and is often the baseline default position for comparison in an options appraisal. In the case of the Council, it involves the transfer back to in-house management after a previous outsourcing arrangement.
- **Re-tendering the contract to a multi-site trust operator.** This is still the most common management approach amongst local authorities in England. This could include Aspire partnering with a Multi-Site Operator.

17 The Council wishes to understand what the likely outcome would be under current market conditions and assess whether the financial arrangements with Aspire offer value for money and are financially sustainable.

18 The Council, with input from SLC developed evaluation criteria for the options appraisal which include financial and non-financial criteria shown in Figures ES2 and ES3.

Financial appraisal

19 SLC has undertaken a “*shadow bid*” of the three management options based on 2019/20 financial data. This provides a comparison of the potential costs of each management model but should not be used as an indication of service costs going forward.

20 The in-house model is likely to be the costliest because:

- There is potential loss of VAT exemption on leisure income due to the Council being close to its de minimis limit and unable to claim exemption on additional income, estimated at £254K per annum.
- Net loss in NNDR exemption benefit estimated at £250K per annum.
- There are additional employer pension costs as staff move to local government terms and conditions.

21 Procurement resulting in a multi-site trust operator would offer the least costly solution because:

- The multi-site trust operator would get the maximum VAT and NNDR relief.
- A multi-site operator would expect high income levels for health and fitness.
- Multi-site trust operators run on low management costs and overheads.
- Procurement savings on supplies and service.

22 A multi-site trust operator appointed through procurement would expect to draw profits from the contract.

23 There is the potential of Aspire partnering with a multi – site operator to combine local knowledge and expertise with economies of scale. This model has been successfully implemented in a number of contracts in England.

24 The LATC is likely to offer a mid-range financial solution. It would benefit from VAT exemption and not be required to offer local government terms and conditions but would have comparatively high management costs and no NNDR relief.

25 Set up or procurement costs including officer time are estimated at £50K for in-house, £200K for LATC and £180K for competitive procurement.

26 Procurement of the contract to a multi-site trust operator is likely to require the least revenue support from the Council. However, this analysis does not take into account rising energy prices, increased staff costs due to post-pandemic shortages and reduced income levels as the service recovers from the pandemic. These post-pandemic factors apply to all management models. As a result, based on the existing service without investment there **is no prospect of the service running at zero subsidy or better in the future.**

27 Figure ES1 shows the financial appraisal based on the evaluation criteria agreed with the Council. Each has been graded Red (negative), Amber (neutral) and Green (positive).

Figure ES1: Leisure Financial Appraisal

| Criteria | In-House | LATC | Procurement/Trust |
|---|----------|------|-------------------|
| Likely revenue cost or surplus of management model | ● | ● | ● |
| Degree in which the management model can provide financial certainty | ● | ● | ● |
| Degree to which the management model can provide commercial risk transfer | ● | ● | ● |
| The degree to which the management model can offer transfer of asset repairs and maintenance risk | ● | ● | ● |
| The degree to the management model may be able to access external funding. | ● | ● | ● |










54 The high-level evaluation indicates that procurement to a multi-site trust operator will offer the most advantageous financial outcome with commercial and operational risk transfer. Through a leisure contract it is likely to offer some financial certainty although this would not include during the pandemic.

Non-financial appraisal

55 Figure ES2 shows the non-financial or social value appraisal based on the agreed evaluation criteria.

Figure ES2: Non-financial appraisal

| Criteria | In-House | LATC | Procurement/Trust |
|---------------------|----------|------|-------------------|
| Climate Change | ● | ● | ● |
| Wider Social Value | ● | ● | ● |
| Reducing Inequality | ● | ● | ● |

| Criteria | In-House | LATC | Procurement/Trust |
|---|---|--|---|
| Increase in inclusion and participation |  |  |  |
| Socially responsible & empowering communities (partnership working) |  |  |  |
| Innovation |  |  |  |

87 The non-financial and social value appraisal of the three management options is more balanced between the different models.

88 **Leisure services, as one of the Council’s major contributors of carbon can play a significant role in the Council’s climate emergency agenda.** Coupled with rising energy prices there is a major incentive for both the Council and its leisure operator to invest in technology to reduce emissions. This opportunity applies to all management models. Investment would need to be driven by the Council although a multi-site leisure operator may invest if it can gain return over the life of the contract.

89 All three management models have some potential to contribute towards wider social value and reducing inequality through training and employment opportunities, and the wider benefits of reducing health inequalities by getting people more active. For the LATC and leisure trust options this would need to be specified in the services specification. The in-house model could be more flexible but lacks the capacity of a multi-site leisure operator.

90 Each management model would be focused on increasing inclusion and physical activity participation providing, in the case of a LATC or multi-site leisure trust, this is set out in the services specification. Multi-site leisure operators normally have more marketing and digital communications capacity to help drive participation.

91 The in-house model would be better positioned to work in partnership with communities to enable them to have local physical activity opportunities run by themselves. However, may need to invest additional resources to make this happen.

92 A multi-site leisure trust operator would bring more innovation than in-house or a LATC. Larger operators have head office resources for product development, marketing, ICT and asset management. However, the leisure contract and services specification would need to be set up in a way that encourages innovation.

Leisure options appraisal conclusion

93 Overall, procurement of a multi-site trust operator is the most advantageous management option for the Council. However, there is significant work to be done to make the service *‘procurement ready’*. This includes addressing some of the service weaknesses including parking at GL1, undertaking asset condition surveys to help understand the whole life costs,

developing a strategic approach to leisure and a services specification which are focused on contributing towards narrowing health inequalities in the City.

Soft market testing

94 SLC undertook soft market testing in December 2021 and received responses from eight multi-site trust leisure operators. The results of which are summarised in Figure ES3.

Figure ES3: Soft marketing testing summary



95 Despite challenges presented by COVID recovery, there remains a good level of interest from the multi-site trust leisure operator market in new contract opportunities, with operator actively bidding, or willing to explore potential new partnerships.

96 All operators expressed an interest in managing the portfolio of facilities.

97 Although the response was mixed, there is some appetite from the leisure operator market to integrate the leisure facilities and cultural facilities under a single management contract. This could bring synergies across the services and provide a joined-up approach to delivery.

98 There is strong consensus on the value of an outreach programme designed to help tackle inactivity and health inequalities in the wider community. All of the established leisure operators have experience in delivering such programmes.

99 In light of the pandemic, there is a clear requirement from operators that any new contract(s) will need to provide protection against future similar scenarios. The preference would be for the Sport England model contract to be used with the inclusion of a Change in Law Clause.

100 Most of the multi-site trust leisure operators confirmed they would accept full commercial risk from the start of the new contract, subject to there being suitable provisions in the contract (see above) and business continuing to recover over the coming months.

101 The general preference of multi-site trust leisure operators is that maintenance risk is shared with the Council.

What are the challenges and opportunities for Leisure Services?

102 With the contract ending in September 2023 and the effects of the pandemic still impacting on leisure income, Aspire may need to explore partnering with a multi-site operator to enable them to bid for the new contract.

- 103 The Council lacks a full understanding of the condition of its two leisure centres and their future maintenance and lifecycle costs. These are needed to understand potential whole life costs before committing to a long-term management contract.
- 104 The long-term impact of the pandemic on leisure income is still uncertain. As of December 2021, nationally health and fitness income was at c. 74% of pre-Covid levels. Swimming however is recovering well with many leisure centres reporting that they are back to full capacity for swimming lessons. If there is long term behaviour change towards other forms of physical activity and health and fitness income does not fully recover this will have a major impact on the finances of many leisure contracts and the expectations of operators when bidding for contracts. Councils and operators may need to look at re-purposing leisure buildings, reducing the emphasis on health and fitness and providing alternative ways of getting people active.
- 105 GL1 is starting to age and in need of investment and possibly some re-purposing to make it more attractive to potential bidders and customers. The parking situation if unaddressed will inhibit any growth at the centre.
- 106 However, there are some significant opportunities for the Council to improve its leisure services both financially and in terms of delivering social value.
- 107 The Council's new priority focused on addressing inequalities presents a significant opportunity to re-focus leisure services on contributing towards narrowing health inequalities in the City. This will require a clear strategic approach to raising physical activity levels, particular for those groups that are inactive or have underlying health issues.
- 108 Whilst GL1 is starting to age, the size and nature of the building opens up opportunities for investment and re-purposing. A well-crafted investment strategy should deliver both an improved financial performance and more social value.
- 109 The two leisure centres represent a significant share of the Council's carbon emissions. There is potential to reduce this and mitigate against rising energy prices by investing in energy saving technology.

Leisure Services recommendations

- 110 SLC has provided the following core recommendations based on the findings from the service assessment and management options appraisal. See Figure ES4.

Figure ES4: Core Recommendations

Recommendation 1

The Council should adopt procurement of a multi-site leisure trust operator as its preferred management option. In order to become 'procurement ready' the Council should extend the tenure of Aspire by at least one year through a different arrangement that enables the Council to have more control over the service whilst it prepares for the procurement.

This will enable the Council to develop a strategic approach to leisure and enable it to develop a new sustainable leisure contract, focused on narrowing health inequalities.

Recommendation 2

To enable the Council to prepare for procurement, it should work with Aspire to establish a financially sustainable, jointly agreed plan covering from now until the end of the contract. The plan could be in the form of a Partnership Delivery Plan (PDP) which includes:

- Contract extension to at least September 2024
- A sustainable financial plan which clearly identifies the level of Council support taking into consideration Covid recovery monitored through open book accounting.

This will enable the Council to take back control of the service as it prepares for procurement.

Recommendation 3

The Council should develop a strategic approach for leisure that re-positions leisure towards contributing to narrowing health inequalities in the City. This should include a new performance management system that can be embedded into the new leisure contract.

This will enable the Council to provide a more effective service.

Recommendation 4

The Council needs to understand the condition of its leisure facilities and their whole life costs for the next 10 – 15 years.

This will provide visibility of the whole life costings of the leisure facilities.

Recommendation 5

The Council should review the client-side resources needed to initiate its plans to consolidate and transform leisure services. This includes developing and managing a Partnership Delivery Plan with Aspire and preparing for the subsequent procurement.

Recommendation 6

The Council should continue to work with the University of Gloucester at Oxstalls Sports Park with a view to having co-ordinated management arrangements for the tennis centre and University facilities. This includes undertaking a joint procurement.

This will enable development of a joined-up offer for residents at the sports park

Implementation

- 120 Due to the need to secure management arrangements beyond September 2023, an indicative implementation timetable for the key recommendations is set out in section 7 of the main report.
- 121 This is based on commencing engagement with Aspire to develop a Partnership Delivery Plan as soon as possible, an extension of one year on the Aspire contract and a new leisure contract commencing in October 2024.
- 122 A high-level resource plan for delivering leisure transformation is provided in section 7.2.