

# CORPORATE AND COMMUNITY OVERVIEW AND SCRUTINY COMMITTEE



Report subject	<b>Harmonising the management of BCP Leisure Centres</b>
Meeting date	12 <sup>th</sup> December 2022
Status	Public Report
Executive summary	<p>This Overview and Scrutiny report comes ahead of a paper planned for Cabinet in January 2023. Feedback from Scrutiny will be used to shape the Cabinet report and recommendations.</p> <p>In 2020 the Council and Active Dorset jointly commissioned a review of the legacy Built Facility Needs Assessment to review the level of provision of sports and leisure facilities across Bournemouth, Christchurch and Poole together with the condition of the assets. The assessment concludes we have the right number of facilities for our future population needs in the right places across the conurbation. However, many of the facilities need investment and access to school sports halls in particular remains sporadic.</p> <p>Officers are reviewing options for the future operational management of leisure sites to move towards a harmonised offer for BCP residents. To assist in arriving at the most appropriate future model, officers commissioned the support of Max Associates, an expert consultancy within the leisure industry.</p> <p>This paper sets out the current management arrangements for leisure in BCP, the present leisure operating environment and the changing leisure management environment due to COVID and rising energy prices. It details the in-scope leisure centres for the future management model, summarises the work undertaken to date and details the options for future management of the in-scope leisure centres.</p> <p>The facilities identified in the paper as in scope:</p> <ul style="list-style-type: none"> <li>• Rossmore Leisure Centre – Joint use agreement in place with St Aldhelm's Academy</li> <li>• Ashdown leisure centre – Joint use agreement in place with Aspirations Academy Trust</li> <li>• Dolphin Leisure Centre</li> <li>• Two Riversmeet Leisure Centre</li> <li>• Bournemouth Indoor Bowls club.</li> </ul>
Recommendations	<p><b>It is RECOMMENDED that the committee:</b></p> <p>(a) Provide comment and feedback on the work completed to assess the options for the future management of the in-scope leisure centres.</p> <p>(b) Notes the work underway to deliver the Sports and Leisure</p>

	Built Facilities Strategy which supports the BCP Council Local Plan
Reason for recommendations	To support the Council's Big Plan, the Corporate Strategy and the Physical Activity Strategy and the Health and Wellbeing Strategy

Portfolio Holder(s):	Councillor Jane Kelly
Corporate Director	Chris Saunders
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Wards	All Wards
Classification	For Information

## Background

1. Local Authorities have a statutory responsibility for improving the health of their local population and leisure centres play a key part in this by providing structured exercise and sporting opportunities across all age ranges.
2. The outcomes achieved from having a well-used and vibrant leisure offer fits with many of the Big Plan and Corporate Strategy objectives. They help bring our communities together and reduce loneliness and isolation. They encourage intergenerational interaction and provide opportunities for engagement with youth and school groups. Most notably they promote happy, active and healthy lifestyles. During the Covid lockdown period the sector quickly moved exercise classes online helping achieve social and health objectives even in the toughest of times.
3. Covid and rising utility costs threaten the viability of the leisure centre offer nationally. The financial viability of leisure centres is determined by operating cost vs membership sales. Covid closures led to memberships being refunded and many cancelled. Nationally the sector has bounced back to approximately 75-80% of pre-COVID membership levels. Alongside this as significant energy consumers, particularly from pool heating, leisure centres are suffering from the utility price increases.
4. A table detailing the current costs and income to the Council linked to leisure centre management is appended to this report as a Part 2 item, Appendix A
5. In 2020, BCP Council in conjunction with Active Dorset, commissioned a review of the legacy Built Facilities Needs Assessment to review the current level of provision of sports and leisure facilities across Bournemouth Christchurch and Poole, the condition of these assets and determine whether they met the needs of our residents. This review covered all BCP Council and partner sports and leisure assets across the BCP area, including leisure centres, skate parks, velodrome, Kings Park Athletic Stadium and tennis courts.
6. The Council, in partnership with Active Dorset is commencing the process of engaging with National Governing Bodies to review and evaluate the findings of this review and finalise the report, once complete we will engage with Members as part of the development of a Sports and Leisure Built Facilities Strategy and associated action plan.
7. This work feeds into the development of the Local Plan supporting the identification of sites for sport and leisure provision across BCP, both current provision and future need. The final Strategy will be presented to Cabinet in Spring 2023 to meet the Local Plan timeline.
8. BCP Council own nine leisure centres, three in Bournemouth are contracted to BH Live to operate (Stokewood Road, Pelhams Park and Littledown Centre). The Junction in Broadstone is leased to YMCA and three sites in Poole are contracted to Sports and Leisure Management (SLM) (Rossmore, Dolphin and Ashdown). Two Riversmeet in Christchurch and Bournemouth Indoor Bowls Club (BIBC) in Kings Park are operated in-house.
9. The contract with BH Live, which includes the BIC and Pavilion as well as the leisure centres has a further 12 years, expiring in 2035, therefore these sites are out of scope for this review of leisure centre management. BH Live are an independent company and not owned or controlled by the Council.
10. The Junction Leisure Centre lease is on a long-term arrangement, so this site is also out of scope for this review.
11. SLM were awarded a 10-year contract in 2006 for three Poole leisure centres and the five year extension clause was activated in 2016 resulting in a contract expiry date of 31<sup>st</sup> May 2021. With Covid continuing to destabilise the market the decision was taken to further extend the contract until September 2024. The sites in scope for this review are therefore:

- Rossmore Leisure Centre – Joint use agreement in place with St Aldhelm's Academy
  - Ashdown leisure centre – Joint use agreement in place with Aspirations Academy Trust
  - Dolphin Leisure Centre
  - Two Riversmeet Leisure Centre
  - Bournemouth Indoor Bowls club.
12. All of these sites are well established and have high levels of usage with the exception of Bournemouth Indoor Bowls Centre in Kings Park which was recently purchased through the Boscombe Towns Fund project and has high potential to provide a cost-effective leisure facility benefiting the local community.
13. The harmonisation of BCP Leisure centre provision will be in two stages, stage one will include the three SLM leisure sites, Two Riversmeet and the BIBC. Stage two will take place on conclusion of the BH Live contract in 2035.

### **Built Facilities Needs Assessment**

14. Knight, Kavanagh & Page Ltd (KKP) were appointed by Active Dorset working with BCP Council to undertake an assessment of sports and leisure facility needs across Bournemouth, Christchurch and Poole. The study entails updating the 2014 Bournemouth and Poole study and aligning it with the relevant Christchurch Indoor and Built Facilities study produced as part of the Dorset Study in 2017. The primary purpose is to inform the production of the BCP Local Plan and strategic built facilities decisions.
15. The facilities/sports covered include sports halls (and associated indoor sports), swimming pools, health and fitness, squash, gymnastics, indoor and outdoor bowls, athletics, indoor and outdoor tennis, golf courses, squash courts as well as cycling, watersports (sailing, rowing, canoeing, outdoor activity centres and informal areas such as showers and slipways), skateboarding/BMX facilities and multi-use games areas (MUGAs).
16. In addition, the draft report also focuses on leisure provision in Poole Town Centre, Two Riversmeet Leisure Centre, Christchurch and Boscombe Town Centre.
17. Working with Active Dorset, BCP Council are undertaking engagement with the National Governing bodies of sports groups and associations along with non-represented groups such as dance and martial arts. This engagement will allow us to validate the findings, finalise the report and help shape the strategy.
18. Following the engagement and the finalising of the report, the needs assessment review will be developed into a Sports and Leisure Built Facilities Strategy and will feed into the BCP Council local plan
19. The needs assessment review concludes that we largely have the right number of facilities for our future population growth in the right geographical places across the conurbation. However, the report also says that many of the existing facilities need investment.
20. The assessment also states that access to school sports facilities (mainly sports halls) is sporadic and often difficult to navigate. There are some notable exceptions to this and the Active Dorset managed site at Slade's Farm which includes the school sports facilities at Winton & Glenmoor is one such example.

### **Harmonisation of Leisure Management review**

21. BCP Council commissioned leisure consultancy specialists Max Associates to undertake a review of the future leisure management options for the sites listed in paragraph 11 above. The review was carried out during the summer of 2022 and presented in September 2022. A copy of the full report in Part 2 at Appendix B.

22. The consultants were instructed to consider all suitable management options available. Table 1 below identifies the options and the rationale regarding their suitability for inclusion in the review.

**Table 1:** Max Associates suitability and rationale

	Suitability	Rationale
External operator	✓	Suitable for all facilities in scope
In house	✓	Suitable for all facilities in scope
Local Authority Trading Company (LATC)	✓	Suitable for all facilities in scope
Not for Profit Distributing Organisation (NPDO)	✓	Suitable for all facilities in scope
Joint venture	x	Excluded due to different strategic outcomes and priorities in neighbouring authorities and different timescales in leisure delivery process
Asset transfer	x	Excluded due to legal implications and the lack of influence and control from the Council

23. The options were narrowed down based on the rationale to the following four options:

**(a) External Operator** - Under this option, as per the current arrangements with SLM, the Council would retain strategic control of the service and outcomes and income generation via its service specification. The responsibilities of each of the parties are defined within a contract. Specifications can be output or outcome based, with the contractor providing method statements which form part of the contract, detailing their approach to achieving the specification requirements and performance outcomes.

**(b) In-House** - The services are delivered through direct management of facilities through frontline staff. The Council has full responsibility for all income and expenditure risk and is responsible for future lifecycle investment and replacement of equipment. With this model, the Council has full control over all aspects of service delivery including pricing, programming and marketing.

**(c) Local Authority Trading Company (LATC)** - The Council would establish an 'arm's length' organisation to run the facilities and services on its behalf. LATCs are bodies that are free to operate as external companies but remain wholly owned and controlled by the parent council. As trading bodies, LATCs can provide their services to a wider market than a council department. LATCs are contracted by the parent council (or councils) to provide services back to the council(s) via a service contract.

**(d) Locally established, not for profit distributing organisation (local NPDO)** - The Council could set up a charitable organisation to manage the services. This would be a local organisation, with staff TUPE transferring from the existing facilities. The governance can be determined to most suit the needs of the council. The local NPDO would be eligible for mandatory (80%)/discretionary (up to 20%) national non-domestic rates (NNDR) relief. Income on most sporting activities is exempt from VAT, however VAT on corresponding expenditure is non-recoverable

24. The evaluation by Max Associates of the four management options listed above was undertaken utilising specific criteria and a scoring matrix (Table 2).

**Table 2: Max Associates Evaluation matrix**

	Criteria	Overall weighting	In-House	External Contractor	LACT	NPDO
1	Delivery of strategic outcomes	15%	5	4	5	5
2	Quality of service and customer satisfaction	15%	5	4	4	4
3	Council influence and control	10%	5	3	4	4
4	Staffing	10%	4	4	4	4
5	Risk/sustainability	10%	1	4	3	2
6	Risk/operations	10%	5	5	4	4
7	Revenue implications	10%	1	5	4	4
8	Value for money	15%	1	5	4	4
9	Capital resource	5%	5	4	3	3
			32	38	35	34
		100%	70%	85%	80%	78%

25. Based on the results of the evaluation (Table 2), the External Operator option scored the highest with 85% but was closely followed by the LATC option with 80%.
26. Whilst the in-house option scored more favourable in many aspects of the criteria, the primary reason for the in-house option being dismissed were the significant financial risks they posed. Should all the services be brought in-house, the Council is likely to breach its VAT partial exemption limit, resulting in an additional cost to the Council of c.£2.5m per annum. Also, this option does not qualify for National Non-Domestic Rate relief (NNDR).
27. As the outcome was so close between External Operator and LATC, a second phase evaluation was undertaken which only considered these two options. The criteria and score weighting was re-focused and the five highest priorities for leisure service delivery were considered.
28. The results of the second evaluation resulted in the External Operator option scoring the highest at 83% against 75% for the LATC, the table below provides the overall evaluation scores.

**Table 3:** Max Associates detailed evaluation of external operator vs LATC

	Criteria	Overall Weighting	External Contractor	LACT
1	Delivery of strategic outcomes	20%	4	5
2	Quality of service and customer satisfaction	20%	4	4
3	Revenue implications and value for money	30%	5	3
4	Risk/sustainability	15%	4	3
5	Council influence and control	15%	3	4
			20	19
		100%	83%	75%

29. Both the External Operator and LATC option have benefits and weaknesses these are summarised in Table 4.

**Table 4:** Max Associates benefits and weaknesses analysis of external operator and LATC.

	Benefits	Weaknesses
External Operator	<p>Likely to receive VAT and NNDR relief</p> <p>Revenue risk sits with the operator not the Council</p> <p>A performance management system will be put in place with detailed key performance indicators for operators to achieve</p> <p>Contractors typically have experience of delivering and project managing leisure centre investment projects</p> <p>These organisations are commercially focused and able to optimise income generation from leisure facilities, gyms, swimming lessons and group exercise classes</p>	<p>Any profits made may not be reinvested back into the facilities or wider council area</p> <p>An outsourced partner will report to its own Board of directors who may have differing objectives to the Council</p> <p>Any externalisation may crystallise any pension deficits. It is very likely that the Council would remain responsible for this under any externalisation process</p> <p>Their focus will be on the whole organisation rather than on local issues. Local issues will be the focus of the contract / regional manager</p>
LATC	<p>LATCs are bodies that are free to operate as external companies but remain wholly owned and controlled by the parent council.</p> <p>As trading bodies, LATCs can provide their services to a wider market than a council department</p> <p>LATCs are contracted by the parent council (or councils) to provide services back to the council(s) via a service contract</p> <p>They can be a preferred 'cultural fit', compared to procured and independent charity models. However, both risk and reward ultimately remain with the Council</p>	<p>High costs of mobilisation</p> <p>Complex resource heavy process of mobilisation</p> <p>Capital investment responsibility remains with the Council</p> <p>Inexperienced new entity entering a competitive commercial market</p>

## **Early Market Engagement**

30. As the External Operator management model has been shortlisted as a feasible option and due to the tight timeline attached to this project, we recently commissioned an early market engagement (EME) exercise to test the market appetite, the brief used for this exercise is attached to this report in Appendix C.
31. The purpose of this exercise was to ascertain market interest in the future management of the facilities in scope and, if parties were interested, how would they deliver services to the benefit of the authority and residents.
32. We received six submissions, five of which are from national and/or local organisations who showed a strong interest in all the leisure centres in scope, therefore we have adequate feedback to go out to market for an external operator should this be the desired option.

## **Next steps and timeline**

33. A report will be presented to Cabinet in January 2023 which will be seeking approval of the recommended option for the future management of leisure centres.
34. Detailed advice from leisure, legal, HR, estates and facility maintenance will be required to guide and advise the process to implement the approved option.
35. For any of the options a minimum of 12 months is recommended to allow suitable time to take the relevant process through from start to having the new model operational. As the new model of operation needs to be in place by the 1<sup>st</sup> October 2024, this gives approximately 18.5 months should approval be obtained at Cabinet in January 2023.

## **Summary of financial implications**

36. The delivery of the Sports and Leisure Built Facilities Strategy will enable BCP Council, partners and local sports organisations to use the document to support bids for external funding.
37. A summary of the current BCP Council financial commitment for the current Leisure Centre management contracts is shared in Part 2 of this report, Appendix A. This is confidential as contractually and commercially sensitive.
38. The External Operator option has been identified as the best option in terms of revenue implications and value for money for BCP Council.
39. At the time of the production of the Max Associates report the difference in costs between the LATC and External Operator was c.£340k per annum, with the LATC being the more costly. However, a strategic financial agreement would be implemented within the chosen management model in terms of contract or service agreement and as the industry recovers the financial position of either option should be seen to improve.
40. The detail and impact of the long-term financial position connected to the management of the in-scope leisure centres will be determined by the management option we proceed with.
41. Whilst the leisure industry remains in a state of business recovery following the pandemic and the increased pressure from rising utility costs, landing an accurate financial forecast is a challenge.
42. It is worth noting that a consultation is currently underway to review the current and future use of the BIBC facility. It is possible that capital investment will be required to enhance the services on offer on the ground floor. It is yet to be determined whether the funding will be requested internally via prudential borrowing or form part of the procurement opportunity for the future management of the facility.
43. The expectation is that the selected management option will improve the financial position of these assets and services.



## **Summary of legal implications**

- 44. The legal implications will be determined by the approved management option. If we were to proceed with the External Operator option a market procurement exercise will be required. If we were to proceed with the LATC option a procurement exercise would not be required although the legal team would be a key stakeholder in setting up the LATC, subsequent contract and service agreements.
- 45. Dedicated legal resource will be required once a decision has been agreed regarding the desired future management option.

## **Summary of human resources implications**

- 46. All of the options would result in the TUPE process being implemented for staff, depending on the option implemented, potentially over 120 BCP employees and up to 250 SLM employees. This will therefore impact personal data, payroll and pension schemes.
- 47. An equality impact assessment will be completed based on the management option agreed upon.
- 48. The BCP Council employees impacted by this direction of travel have been informally notified and a regular communication plan will be implemented.
- 49. Dedicated HR resource will be required once a decision has been agreed regarding the desired future management option

## **Summary of sustainability impact**

- 50. The Sports and Leisure Built Facilities Strategy will assist in supporting all relevant organisations with identifying actions to improve and enhance sustainability opportunities.
- 51. The sustainability impact will not change. The Council lead on the sustainability plan across all BCP Council owned leisure assets and this will continue regardless of the chosen management model.
- 52. Further engagement with the sustainability team will be required when completing the contract and service agreements.

## **Summary of public health implications**

- 53. The objectives of the Big Plan, Corporate objectives, Physical Activity Strategy, Health & Wellbeing Strategy and Sports and Leisure Built Facilities Strategy will be fundamental in shaping the terms of the new contract and service agreements.
- 54. The development of the Sports and Leisure Built Facilities Strategy and the future arrangements for leisure centre management will promote and support physical activity as a key part of a healthy way of life in Bournemouth Christchurch and Poole and aim to make it easier whatever age, ability or circumstance to access sport and leisure. This will support the wider work and aims of Public Health Dorset and the integrated care systems
- 55. The national organisations such as Sport England, UK Active and local partners in Public Health and Active Dorset will be engaged with when formulating the terms of the new contract and service agreements.
- 56. The internal and external governance of the new arrangement will be prioritised throughout the duration of the future management provision.

## **Summary of equality implications**

57. We have engaged with our equality lead who advised that the EIA screening tool should be drafted in preparation for the submission of this report. The EIA will be finalised following feedback from the O&S meeting in advance of the Cabinet report submission.

## **Summary of risk assessment**

58. A detailed risk assessment will be completed for the finalisation of the Cabinet report

## **Background papers Part 2**

### **Appendices**

Appendix A      Current BCP Council financial commitment for Leisure Centre management - *contractually and commercially sensitive*

Appendix B      Max Associates report – ‘Options Appraisal of Alternate Leisure Management Arrangements’ – *commercially sensitive*

Appendix C      Early Market Engagement brief

## **Appendix C**

# **DESTINATION AND CULTURAL SERVICES** **CONSULTANCY SERVICES** **FOR A REVIEW OF LEISURE CENTRE MANAGEMENT**

## **PROJECT BRIEF**

### **1. Introduction**

BCP Council owns nine leisure facilities which are currently operated under four different models of management with a variety of lease and contractual arrangements and is seeking to appoint a suitably experienced consultant to undertake of review of Leisure Centre Management.

### **2. Scope**

The review would focus primarily on future arrangements at five sites: Ashdown, Poole (Dolphin) and Rossmore (operated by SLM Ltd - contract end date May 2021) along with 2Riversmeet Leisure Centre and The Bournemouth Indoor Bowls Centre (currently run in-house).

The other four centres (3 BH Live – Littledown, Pelhams & Stokewood, and 1 YMCA – The Junction) are operated under long leases 15 years+ and whilst the management arrangements for these centres are not specifically under review, both operators are likely to have a keen interest in any emerging local opportunities.

The review would explore the options to efficiently manage the facilities and generate capital to enhance them, whilst providing a service that supports the Council's priorities and corporate objectives for sustainability, equality, health & wellbeing and investment.

### **3. Requirements**

The key objective is to produce a report within 3-4 months that includes the following:

- advise on current local and national market conditions
- Complete a facility and service review of the BIBC identify and appraise the options for centres in Christchurch, Kings Park and Poole
- detailed comparison of in-house vs LATC options
- produce a business case and recommendations
- outline a timetable for delivery

## **4. Process**

We anticipate this being achieved through the following stages:

### Project start-up:

- Contractor Selection
- Project inception meeting
- Tour of facilities
- Engagement with BCP Working Group, BH Live, SLM & YMCA.

### Desk-top:

- VFM review of existing contractual arrangements
- Review of existing supply / demand analysis and risks
- Review of industry recovery following the pandemic
- Competition review plus national, regional and local trends

### Workshop:

- Present initial findings and draft report to Project Team identifying constraints, options, delivery models, timeline, resource implications, etc.

### Completion:

- Submission of Final Report, Business Case and Recommendations