

**TITLE OF REPORT:**       **Leisure Review: Future Delivery Options**

**REPORT OF:**       **Alice Wiseman, Director of Public Health**

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### **Purpose of the Report**

1. This report provides a summary of the work carried out to review Leisure Services and presents possible future service delivery options including the rationalisation (reduction in number) of sites. Cabinet is asked to consider the report and to approve the most affordable and financially sustainable options for the continued delivery of Leisure Services.

### **Background**

2. In 2015, Cabinet agreed that Leisure Services would achieve the position of no longer being directly funded by the Council and would return an income to enable investment in Council priorities by 2020. During the 5 years from 2015/16 to 2019/20 the Council continued to fund Leisure Services, spending £18m with a further £5.5m funded through COVID Grants during 2020/21 and 2021/22. The aim of not funding Leisure Services has not been achieved and the gap between income and expenditure within the Service is widening due to the impact of COVID and is likely to be further impacted by the cost of living crisis.
3. In February 2021, Cabinet approved the commencement of a review of Leisure Services by the Public Health and Wellbeing (PHWB) Group to evaluate their impact on public health and their role in delivering the Health and Wellbeing Strategy. At the same time PHWB Group were tasked with facilitating savings of £1.2m from the Group budget. To date, £0.600m savings remain undelivered, despite the Groups best efforts. Since then, Cabinet has;
  - Endorsed short-term management actions to secure immediate efficiencies within Leisure Services;
  - Agreed a proposal to develop a Service transformation plan;
  - Approved the exploration of all future operating models for Leisure Services; and

- Approved the Council's updated Physical Activity Strategy (supporting the implementation of the Health and Wellbeing Strategy)
4. For financial year 2022/23 the Council agreed a budget of £2.2m for Leisure Services, (including a Public Health grant of £0.98m), however the Service projected, as at the end of July 2022, a £2.1m overspend which will require the Council to fund Leisure Services to a value of £4.3m (including the approved budget, overspend and undelivered saving).
  5. In addition, due to their size, condition and age, the Council's leisure centre buildings are not energy efficient, and some require major investment to undertake essential maintenance in the short to medium term. The projected cost for essential work to the fabric of the buildings and their heating and lighting systems is a minimum of £13.3m over the next 10 years (for the leisure centres excluding Gateshead International Stadium (GIS)).
  6. Considering leisure centre buildings in isolation, if the estimated annual cost of operating them (based on 2019/20 projections, which is the last full year of trading before COVID) i.e. £3m per annum (as set out in Appendix 2, Table 1), including Public Health Grant, is added to the projected essential maintenance costs (£13.2m), and the likely minimum equipment refresh costs (£1.1m), the overall estimated cost to retain the same level of leisure centre service provision over the next 10 years would be a minimum of £44.3m. This is not affordable.
  7. COVID has hugely impacted Leisure Services, the Council is not achieving pre-COVID levels of income and the increasing cost of living crisis, together with the 10-year projected costs for delivering leisure centre service provision, suggests that the aspiration of achieving a self-funding Service is no longer realistic, the current funding levels are not sustainable, and therefore the Council must now make some difficult decisions.

## **Scope, Vision and Objectives**

8. The scope of this report is the future service delivery options for Council operated leisure centres and swimming pools. Whilst the Gateshead International Stadium is managed within the organisational structure of Leisure Services, the facility has a wider and significantly different offer than the rest of the Leisure Services portfolio. Specifically built for international event spectating purposes, it provides a particular offer to its key tenants, supporting professional sport and a significant educational offer, which are stand alone to its leisure centre health and fitness provision. Its geographical position and facility mix present an opportunity to seek a unique future service delivery model that takes account of new developments in close proximity and a commercial opportunity that is not specifically focused to typical leisure centre models. It is recommended that a strategic vision and plan to reduce expenditure to zero subsidy, specific to the Gateshead International Stadium, is progressed to enable distinct future management operating options to be developed, separate to those for leisure centres and swimming pools. It is therefore proposed that the Stadium be the subject of a future Cabinet report,

specific to its own commercial vision. All information (including financial data) presented in the report from this point will exclude the Stadium, unless otherwise stated.

9. This report proposes that the Council's vision for Leisure Services be designed and delivered to achieve the Council's Physical Activity Strategy mission:

*“To work with our communities and partners, to get Gateshead moving, to improve health and wellbeing, and to be a borough where every resident has access to a range of appropriate and affordable opportunities for physical activity that becomes part of their everyday lives and improves health and wellbeing.”*

10. The vision for the future operating model of Leisure Services must be developed in the context of the rising cost of service delivery, potential reduction in customer demand due to the impact of COVID and the escalating cost of living crisis, correcting the current overspend in Leisure Services and overall affordability within the Council's current and future budget envelope, whilst striving to deliver the Council's strategic policy objectives.

11. The recommended future operating model is to be delivered against the following objectives:

- a. To reduce the cost of provision of Leisure Services to deliver the unachieved savings and ensure that the service operates within its approved budget, to contribute to ensuring the financial sustainability of the Council;
- b. To identify a partner to work with the Council to deliver a leisure offer which supports, in the medium to long term, the effective delivery of Gateshead's Physical Activity Strategy to improve health and wellbeing;
- c. To recover, reinvent and thrive. Learning from the pandemic and working with the selected partner to become a stronger and fairer Borough, diversifying the range of activities delivered outside of the Council's leisure facilities and making better use of data to target those most in need;
- d. To improve community and partnership working to support local people to be more active, particularly targeting where inequalities are greatest and recognising that every community is different; and
- e. To increase social and economic value, reduce carbon emissions and improve environmental management in line with the Council's aspirations.

12. Please note, the data within the ongoing Indoor Building Facilities Strategy (IBFS) refresh and the individual leisure centre deep dive work undertaken by external consultants, FMG Consulting, has been used to provide some of the evidence base in this report. There may, however, be some recently updated data in this report regarding budgets and performance that is not reflected in the FMG reports.

## Options Appraisal for new service delivery model

13. An options appraisal was undertaken by PHWB and FMG Consulting considering the following future operating model options for leisure centres and swimming pools (full details are provided in Appendix 3) as follows:

**Option 1** - In house management directly by the Council (status quo)

**Option 2** - Local Authority Controlled Company

**Option 3** - Single Area Leisure Trust

**Option 4** - Procurement of a service provider partner to operate and manage the Service under a contract with the Council

14. A full description and detailed analysis of the options is set out in Appendix 2. The evaluation of the options established that option 4 be recommended to Cabinet for implementation, i.e. delivery of leisure centre services by a procured service provider partner for the reasons set out in Appendix 3.

## Options appraisal for rationalisation of sites

15. It is acknowledged, however, that the procurement of a service provider partner will not achieve immediate outstanding budget savings and will not address the overspend position of the Service in the short term. The only way to achieve immediate savings within the Service is to rationalise the leisure centre estate and close some of the centres as this is not only critical for the requirement for immediate/short term savings but also for the long term sustainability of the future procured service provider model.
16. In order to identify centres for potential closure to rectify the budget overspend and deliver the outstanding savings, a thorough consultation process must be undertaken to understand the impact that closure will have on a range of stakeholders. It is also necessary to consider the most appropriate prioritisation of access to swimming pools following centre closure, as it is acknowledged that this type of facility is not likely to be replaced by the private sector.
17. Based on the significant amount of information gathered as part of the review of Leisure Services so far and on current evaluation of the financial, strategic, usage, performance, staff and distance impacts (see evaluation matrix at Appendix 6), the sites that appear to be least sustainable and therefore more at risk of closure are Gateshead Leisure Centre, Dunston Leisure Centre and possibly the sports hall at Birtley Leisure Centre. No decision can be made on which sites should remain open and which should close until a comprehensive consultation process has been undertaken to understand the impact of potential closures and to reflect the impact within a final evaluation process. Cabinet will receive a further report in January 2023 following final evaluation to recommend leisure centre sites for closure.

## Proposal

18. It is proposed that Cabinet agree to the following course of action:
- a. To undertake distinct work on the future of Gateshead International Stadium as part of a separate project and take the Stadium out of scope for the short and medium term future operating model decisions for the remaining Leisure Services;
  - b. To commence a procurement process to identify a service provider partner to contract with for the management of the Council's leisure centre portfolio, reducing the Council's funding of leisure centres year on year and delivering services in a manner that strives to achieve the Council's Physical Activity Strategy mission; and
  - c. The commencement of a comprehensive public, trade union and employee consultation process to understand the impact of leisure centre closures in order to influence the final evaluation exercise and future recommendation to Cabinet on leisure centre rationalisation (which based on work carried out so far currently highlights that Gateshead Leisure Centre, Dunston Leisure Centre and possibly the Sports Hall at Birtley Leisure Centre are at most risk of closure). The consultation process will specifically seek to understand the most appropriate prioritisation of access to a reduced volume of swimming pools, to influence the future operating model.

## Recommendations

**19. It is recommended that:**

- (i) Cabinet approves the consideration of the future operating model for the Gateshead International Stadium being undertaken separately to that for the wider leisure service and that the future of the Stadium will be the subject of a distinct review and future report to Cabinet;
- (ii) Cabinet approves the commencement of a procurement process to identify and contract with a service provider partner to manage the Council's leisure centres and swimming pools under a services contract;
- (iii) Cabinet approves the commencement of a comprehensive consultation process to understand the impact of any leisure centre closures in order to influence the final evaluation exercise on which leisure centres should remain open and agrees to receive a further report following this further evaluation setting out proposals for the reduction of the number of Council leisure centres;

**For the following reasons:**

- (i) To enable the development of a strategic vision that is specific to the Gateshead International Stadium and further review of distinct operating options;
- (ii) To deliver value for money and services that are targeted to our Physical Activity Strategy mission;
- (iii) To help lessen the Council's overall funding gap by reducing the funding of the Leisure Services year on year, to deliver the unachieved savings in a timely manner, and to help to ensure the sustainability of the reduced leisure centre portfolio;
- (iv) To ensure future recommendations on leisure centre closure are made in light of known impact upon leisure centre users, community groups and those protected under the Equalities Act.

## Policy context and background

1. The Council operates a comprehensive Leisure Service offer comprising sport, leisure and swimming facilities across a number of leisure centres within the borough and delivers a range of support activities to other organisations, clubs and the community.
2. Physical activity is the cornerstone of good health and wellbeing. The Physical Activity Strategy highlights that there is overwhelming evidence that regular physical activity is good for physical and mental health and wellbeing and prevents long term health conditions such as heart and lung diseases, diabetes, cancers and obesity.
3. Physical activity, as described in the Physical Activity Strategy, has a very wide definition and is not limited to activity that takes place in sports and leisure premises. It can also include walking, running, cycling and many other outdoor activities. Most of the Council funding of Leisure Services is spent on a minority of Gateshead's population who choose to use the Council operated leisure facilities.
4. There is no evidence that the current leisure centre offer supports those in the greatest need, who have lower levels of activity. It could, therefore, be argued that the funding of Leisure Services does not fully support the Thrive agenda, and it could actually be creating inequality.
5. The Council is very proud of its sport and leisure offer and its historical reputation for being a leader in this area, however, with the ongoing financial austerity faced by the public sector, the amount of Council revenue and capital funding required to maintain the same level of provision of this non-statutory service is no longer available. The Council's financial plan (Medium Term Financial Strategy) makes clear the massive pressures on resources the Council is facing and requires savings to be made across all Council services.

## Scope, Vision and Objectives

6. This report considers the Leisure Services provided by the Council, focusing on future service delivery options for Council owned and operated leisure centres and swimming pools, namely Birtley Leisure Centre, Birtley Swimming Centre, Blaydon Leisure Centre, Dunston Leisure Centre, Gateshead Leisure Centre, and Heworth Leisure Centre.
7. It is proposed that Gateshead International Stadium is excluded from the implementation of the future management options for Council leisure centres and becomes subject to a future Cabinet report focusing upon development of a distinct vision and future management options. Whilst the Stadium is managed within the Leisure Services organisational structure, it is recognised that the facility has a wider and significantly different offer than the rest of the portfolio. It has a clear and defined role as an athletics and football stadium, with regional significance for hurdles, throwing and disability athletics and is a key driver in attracting students to Gateshead College. Given its proximity to the Quays development, there are potential opportunities that can be explored to strengthen and complement its existing commercial offer. In order to explore in greater depth, the commercial opportunities specific to the Stadium, whilst

balancing the interests of existing formal tenancy arrangements (Gateshead Football Club, Gateshead College etc.), Cabinet is asked to agree that future operating model options to remove the Council budget for Gateshead International Stadium be developed separately to those for leisure centres and swimming pools. If the recommendation is agreed, work will commence to reorganise the budget and staffing so the Stadium becomes a standalone facility for strategic purposes, whilst remaining under the management of Public Health and Wellbeing

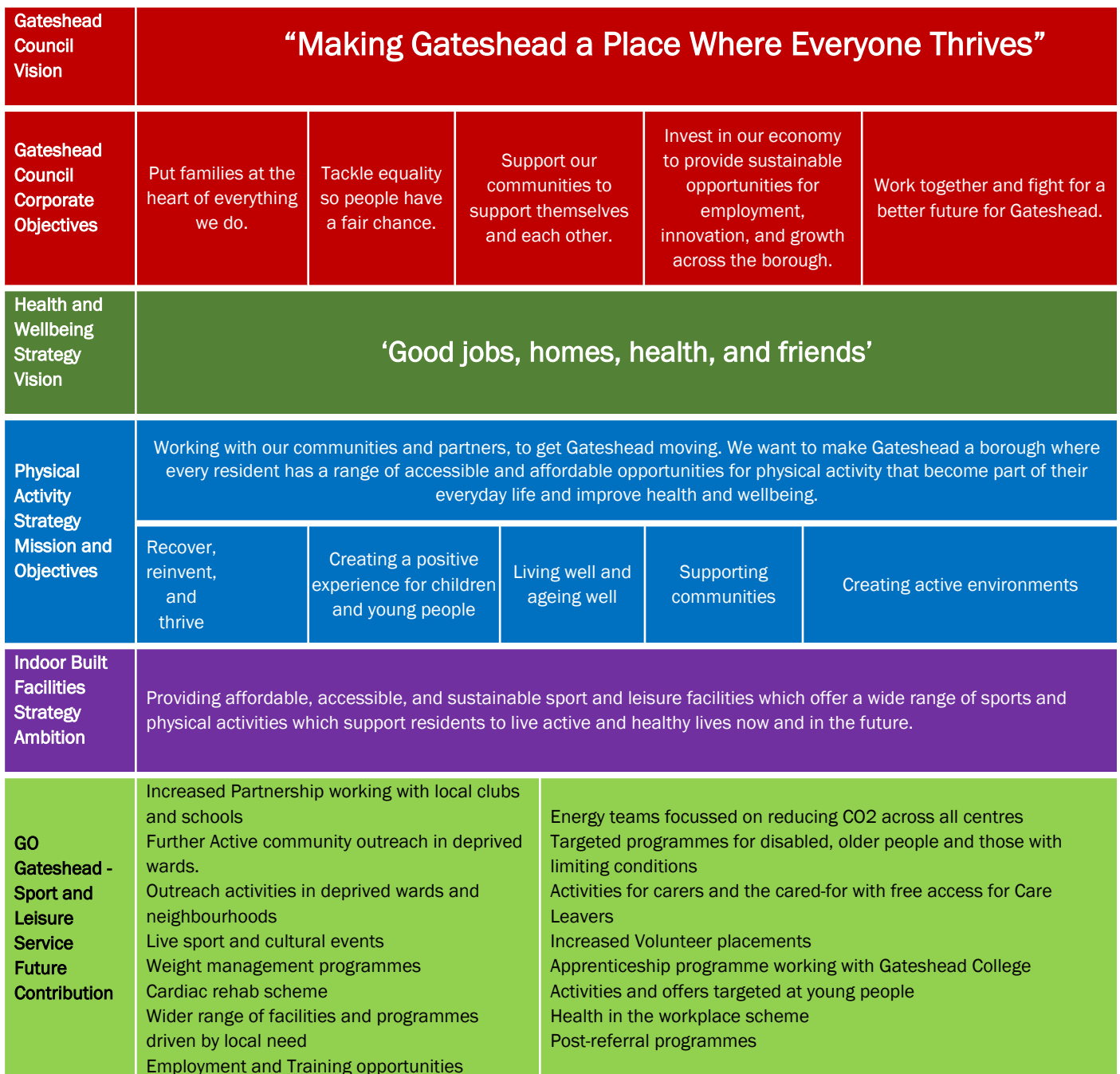
8. A range of targeted support and programmes for local people, clubs and organisations take place outside of the leisure centres and the implementation of the recommendations within this report will help the Leisure Service to refocus and prioritise this work to reach those most in need of physical activity.
9. The vision for Leisure Services is the delivery of the Council's Physical Activity Strategy, which highlights the importance of taking a place based and whole-system approach with an emphasis on supporting people to be more active and targeting where inequalities are greatest. Its mission is:

*"Working with our communities and partners, to get Gateshead moving, to improve health and wellbeing. We want to make Gateshead a borough where every resident has access to a range of appropriate and affordable opportunities for physical activity that becomes part of their everyday life and improves health and wellbeing."*

10. Taking account of the Physical Activity Strategy and work ongoing to refresh the IBFS, and in the context of the imperative to reduce the Council's funding gap, the objectives reached for the future options of our Leisure Services are:
  - i.) To reduce the cost of provision of Leisure Services to deliver the unachieved savings and ensure that the service operates within its approved budget, to contribute to ensuring the financial sustainability of the Council;
  - ii.) To identify a partner to work with the Council to deliver a leisure offer which supports, in the medium to long term, the effective delivery of Gateshead's Physical Activity Strategy to improve health and wellbeing;
  - iii.) To recover, reinvent and thrive. Learning from the pandemic and working with the selected partner to become a stronger and fairer Borough, diversifying the range of activities delivered outside of the Council's leisure facilities and making better use of data to target those most in need;
  - iv.) To improve community and partnership working to support local people to be more active, particularly targeting where inequalities are greatest and recognising that every community is different; and
  - v.) To increase social and economic value, reduce carbon emissions and improve environmental management in line with the Council's aspirations.



11. The diagram below illustrates how physical activity contributes to our Thrive agenda via the Council’s various strategies.



**Financial Context (historic, present and projected future cost implications for leisure centres)**

12. The Council’s Medium Term Financial Strategy is being updated and will be reported to Cabinet in October. The current MTFS anticipated a £45m financial gap over the medium

term, however, this is likely to increase due to the significant pressures manifesting over the last 6 to 12 months in pay, utilities and cost of living.

13. This funding gap follows years of the Council finding significant budget savings of £179m since austerity began in 2010 and the Council therefore is faced with difficult decisions on where to best utilise a shrinking budget and growing financial gap. It must identify services where provision can be delivered differently, reduced, or cease altogether in order to close the gap. Particular focus is given to reducing spend on non-discretionary areas to prioritise the spending needs of statutory services where demand is continuing to grow.
14. A decision was taken by Cabinet in 2015 that the Leisure Service would operate within the level of income that it was able to self-generate, with no additional funding from the Council and plans were drawn up for this to be achieved. However, although the financial situation improved slightly, the self-financing of Leisure Services has not been achieved and the Council has continued to fund the Service as per Table 1 below.

### **Leisure Services – History of Budgets from 2015/16 to 2019/20 (including Gateshead International Stadium) - Pre COVID**

**Table 1**

<b>Leisure Services</b>	<b>Budget</b>	<b>Actual**</b>	<b>Over/(Under)spend</b>	<b>Use of Reserves</b>	<b>Final Over (Under)spend</b>
<b>Financial Year</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
2015/16*	2,204	3,926	1,722	450	1,272
2016/17*	2,805	3,535	730	66	664
2017/18	3,048	3,801	753	229	524
2018/19	2,808	3,718	910	203	707
2019/20	2,832	3,020	188	0	188

\* Leisure Portfolio included additional Facilities, Whickham Thorns Outdoor Activity Centre, Dunston Activity Centre and Gateshead Indoor Bowling Club

\*\*Leisure Management and support costs have been apportioned evenly across all 7 Leisure Facilities. Figures exclude Repairs & Maintenance Cyclical budget and costs

**Breakdown of costs by facility are shown below in Table 2.**

15. Budget and projections for 2022/23 as at the end of July 2022. Breakdown by facility since 2018/19 are shown in Appendix 2.

**Table 2**

	2022/23		
	Budget	Projected Outturn*	Variance
Facilities	£000	£000	£000
Birtley Leisure Centre	205	270	65
Birtley Swimming Centre	356	496	140
Blaydon Leisure Centre	57	445	388
Dunston Leisure Centre	304	461	158
Gateshead International Stadium	565	907	343
Gateshead Leisure Centre	296	586	290
Heworth Leisure Centre	330	546	217
Leisure Management and Support costs	705	675	-30
Leisure Public Health Funding	-977	-977	0
Savings (Undelivered)	-600	0	600
Net position	1,242	3,411	2,169
Savings mitigation (Reserves) 2021/22			
Net Position (after savings)	1,242	3,411	2,169

Projected outturn as at end of July 2022

Leisure Management and support costs have been apportioned evenly across all 7 Leisure Facilities.

16. In February 2021, the Council agreed its budget which included a £1.2m saving to be identified within the Public Health and Wellbeing Group, £600,000 of which has not yet been achieved, despite the Group's best efforts.
17. The 2022/23 budget for Leisure Services is £2.2m which includes the Public Health Grant £0.98m. The service is currently projecting an overspend of £2.1m at end of July 2022, forecasting full spend for the Council at £4.3m (including the £0.600m undelivered savings) as shown in Table 2. Gateshead International Stadium is currently projecting £0.3m overspend included in the figures above.
18. 2022 is an unprecedented year in relation to energy costs with huge increases in both gas and electricity costs with an expectation that they will rise further in 2023/24.
19. Condition surveys undertaken to understand the future maintenance requirements for our leisure centres highlight that a large amount of essential maintenance investment (minimum of £13.3m) will be required over the next 10 years. This is essential maintenance to ensure the safety of the electrics, mechanical equipment and some of the fabric of the buildings (including a potential full roof replacement). It is important to note

that the condition surveys are based on the current condition of the centres and as each year passes, they are likely to face further challenges.

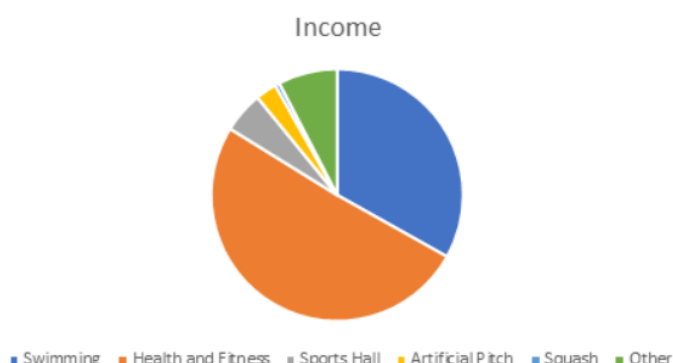
20. The fitness equipment in the leisure centre gyms requires regular refresh. The current 5-year equipment lease runs to July 2025 and the total contract value was £1.1m. A new fitness equipment lease will be required when the current contract ends.
21. The estimated figures for essential maintenance and equipment lease renewal costs are likely to be a lot higher when the time comes for the works to be carried out due to the ongoing cost increases and shortages in trades personnel experienced in the construction sector, plus the current rate of inflation, and this will add significant pressure to the current budget projections. Further detail on leisure centre condition and projected costs over the next 10-year period is available to Cabinet upon request, as it is too large to include as an appendix.
22. Consideration should also be given to potential refurbishment costs. Typically changing facilities in leisure centres tend to be refurbished every 10 years or so to ensure that the facilities remain attractive to customers. If the Council were to consider non-essential refurbishing to any part of the leisure centres, particularly where centres are competing with new private sector facilities, this would be at further additional cost.
23. Table 3 below demonstrates the projected minimum cost to retain the same level of service provision across the existing number of leisure centres over the next 10 years should the Council continue to operate leisure provision as is:

**Table 3**

<b>Estimated area of spend</b>	<b>Total over next 10 years</b>
Annual Service operating costs (based on 2019/20 projections – the last full year of trading pre-COVID) - £3m per annum	£30m
Essential maintenance costs	£13.3m
Equipment refresh costs	£1.1m
<b>Total:</b>	<b>£44.4m</b>

24. This projected minimum cost is likely to grow due to ongoing inflation, ever increasing construction and energy costs; while income could reduce due to the cost-of-living crisis and therefore the ongoing funding of Leisure Services of approximately £44.4m over the next 10 years is no longer affordable for the Council.
25. In terms of leisure centre income, despite the Leisure Services team working incredibly hard to implement measures to increase income and reduce expenditure, expenditure reduction has not been sufficient to close the gap between income and expenditure and has been exacerbated with the impact of the Covid pandemic, which has increased the level of funding required from the Council.
26. It is important to understand how income is generated within the leisure sector. The typical business model for a leisure centre relies on a large proportion of income coming from health and fitness membership which, within Gateshead, is showing a poor recovery

rate from COVID at only 79%. Health and fitness membership is fundamental to the successful delivery of a leisure centre as it typically makes up 45% to 50% of overall income. In this context it is clear how the reduction in our health and fitness memberships is impacting on the financial viability of our leisure centres, as illustrated in the chart below:



27. Another important leisure income factor to appreciate is the funding dependency of operating swimming pools on health and fitness membership income. The cost of operating and maintaining public swimming pools continues to increase and the income from health and fitness, which is traditionally used across the leisure sector to subsidise the cost of swimming, is reducing resulting in a broadening funding gap. The Council is therefore funding swimming activity across the Borough to a significant and increasing degree. If the true cost of providing access to public swimming pools was recovered through charging for swimming it would be unaffordable to local residents and that is evidenced by the lack of private sector operators providing public swimming facilities.
28. The expenditure for running the existing leisure facilities is continuing to increase and becoming rapidly more unaffordable due to poor energy efficiency and very high energy costs (forecasted to increase hugely next year for both gas and electricity). On 21 September 2022 the Government announced a six-month scheme for non-domestic users (including Local Authorities) which sets a Supported Wholesale Price. This is welcome news as prices have been significantly inflated in light of global energy prices. After this initial six-month scheme, the Government will provide ongoing, focused support to vulnerable industries. There will be a review in three months to consider where this should be targeted to make sure those who most in need get support. No further details are available at this time.

### COVID Impact

29. Over the 2-year COVID period, the Service played a key and essential role in supporting the Council's COVID response and received substantial Covid Grant as set out in Table 4 below.

**Table 4 Covid Grant Received**

<b>Reason for Grant</b>	<b>2020/21</b>	<b>2021/22</b>
Furlough	£1.657m	£0.143m
Fees and Charges Claim	£2.709m	
Covid Response		
• Lateral Flow Testing	£0.119m	£0.102m
• Vaccinations	£0.082m	£0.132m
• Contact Tracing		£0.242m
• Hubs/Food Distribution		£0.129m
• Reopening Leisure (Social Distance Measures)		£0.081m
• Covid Marshalls	£0.091m	
<b>TOTAL</b>	<b>£4.658m</b>	<b>£0.829m</b>

30. COVID has had a huge negative impact on the Service's financial position due to lockdown, closures, staff redeployment to support the COVID response, and associated loss of income.
31. Decisions were made not to open Council operated leisure centres as quickly as other leisure operators because COVID infection rates were still relatively high in the North East and the COVID response through the continued redeployment of leisure staff was still required. The Service feel this has contributed to the reduction in customer numbers seen post COVID opening. Some club bookings and businesses who regularly rented space in the leisure centres also did not return. The review of Leisure Services has impacted on the ability of the Service to recover from COVID as service marketing was also restricted.
32. Although similar pressures were experienced across the leisure industry nationally, the Council has failed to recover as quickly as the industry in general. Other leisure operators are currently achieving between 90-100% pre-COVID income however, the Council is currently achieving approx. 80% of its pre-COVID income (based on figures to the end of July 2022). Not all of the Council leisure centres have been fully open due to staff shortages e.g. Clip n climb, and children's parties did not open from the outset and therefore income streams have been lost, contributing to the Council failing to recover as well as other organisations within this sector.
33. The health and fitness memberships are suffering the greatest COVID impact and that represents almost half of the Service income, making only an overall 59% recovery year to date (although Go Card fitness membership numbers (i.e. number of members) are approximately 61% of pre-COVID numbers). It is looking more and more doubtful that the Council will be able to achieve its pre-COVID income levels.
34. Staffing of the leisure centres upon reopening was and remains difficult, with the potential pool of qualified staff having already secured roles within the leisure sector and, due to the leisure review process, the inability of the Council to offer permanent positions. This has led to staff shortages in key roles compounded by national shortages of, for example, lifeguards and swimming teachers.
35. The insufficient number of suitably qualified staff led to a decision to temporarily close Heworth Leisure Centre between July and September 2022. The Council is in a spiralling situation with a shortage of staff leading to reduced opening of facilities, which

leads to reducing income, and an increased reliance on financial support from the Council.

36. Even if the Council were to achieve pre-COVID income levels, this would be insufficient to achieve financial sustainability because the Service has been spending beyond its budget allocation for many years (set out in tables 1 and 2 above). As already highlighted, some of the key costs of operating sport and leisure facilities have hugely increased since COVID (e.g., utility costs), widening the gap between income and expenditure further.

**Summary of work carried out to review the Service**

37. In 2021, FMG Consulting Limited, a consultancy firm with over 35 years’ experience within the leisure sector, were funded by Sports England to conduct a Strategic Outcomes Planning Guidance Health Check of our Leisure Services, to help the Council to understand how it compared against best practice. This review was designed to enable the Council to take a strategic approach to maximising the contribution that sport and physical activities makes to delivering our Health and Wellbeing strategic outcomes.
38. The Strategic Outcomes Planning Guidance Health Check concluded that:
- Work was required to update some strategies and develop others;
  - The information and knowledge of the health and wellbeing needs of residents were not necessarily used to shape Leisure Services, particularly when developing membership packages or programming activities and therefore those most in need were not necessarily benefiting from the service;
  - Improvements should be made in the engagement and communication with users of the Service and the wider community;
  - Energy performance was generally poor across the leisure centres;
  - The approach to performance management should focus on the delivery of outcomes rather than outputs;
  - The existing management model would benefit from a further, in-depth review.
39. Throughout 2022, the Service, has worked with FMG to refresh strategies and implement a transformation plan to deliver many improvements including:

<b>Improvement Actions</b>	<b>Progress at end August 22</b>
Reviewing the opening hours across all sites;	The reviewing of opening hours is still ongoing as not all buildings are back to pre-COVID opening times due to employee shortages
Undertaking an energy audit to see how operating and utility costs can be reduced;	Energy audit site visits have taken place and a report has been completed, which has identified areas where savings can be realised, and carbon emissions reduced. An Action Plan is in the process of being drawn up.
Undertaking a Health and Safety Audit to see if the service is operating safely and to expected industry standards.	An independent, industry specialist carried out a Health and Safety audit of the sites. Overall, the sites scored well but with some

	areas for improvement. An action plan has been developed and is being implemented.
Addressing staff shortages in various roles including pool lifeguard attendants, leisure attendants, swimming teachers, fitness coaches, and gym instructors by running training courses, attending recruitment fayres, partnering with Swim England and the Swimming Academy to recruit and train additional swimming teachers, upskilling various employees and transferring them into harder to fill posts;	Staff shortages are ongoing and the service is constantly interviewing for most positions. However, due to the need to mitigate against potential redundancies which may result from the review, posts are only able to be advertised and appointed to on a temporary/short term basis. This has made the roles less attractive to the jobs market and has restricted the number of candidates applying.
Reviewing all membership prices and categories with a view to trying to target residents that are most disadvantaged and unable to access services due to cost constraints. (This will involve the removal of the 12-month contract for GO membership and replacing it with a month-to-month contract);	Meetings have been held to discuss the removal of the 12-month minimum membership period and discussions are ongoing with Xplore (the company who undertakes the direct debit payments on the Council's behalf).  A review of concessionary pricing will begin very shortly.
Working on the digital systems and payment methods;	A Leisure Hub digital solution is currently being built and testing will be taking place soon.
Partnering with Gateshead College to enable their sports students to gain valuable experience by volunteering both in the leisure facilities and activities out in the community;	Discussions are ongoing with Gateshead College
Reviewing and updating the staffing structure, job profiles and creating new roles where appropriate, re-allocating tasks and revising staff rotas;	Work is ongoing. However, whilst the review is ongoing, to mitigate for any possible redundancies within this process, all vacancies are being offered on a temporary contractual basis to allow for greater flexibility to redeploy substantive (permanent contract) staff should this be required, for example, if a building were to close. Also, the implementation of any contractual changes (i.e. rota changes, job profiles) are required to be implemented on a temporary basis pending the outcomes from the review.
Updating and improving marketing and communication with customers including the Go Gateshead website and social media profile.	The service has been restricted with marketing and promotion activity and the website is constantly being updated. The Leisure Staff will be trained on the use of social media in October.

40. However, these improvements have done little to change the financial position across the leisure service. A number of areas have been highlighted in the review work which suggest why the Service has not been able to reduce its costs and/or increase its income sufficiently:



- (a). The Service does not have in place a full range of high-quality operating systems backed up by a programme of ongoing staff training (this will require additional funding and would take approx. 12 months to procure and implement);
- (b). The Service requires a fully integrated leisure management IT system to drive more efficiency in the business from bookings, pool management, regular user contact and access systems; with associated marketing and financial systems to support the delivery of in-house marketing and direct debit membership (this will require additional funding and would take at least 12 months to procure and implement);
- (c). The Council does not have a single focus on developing sports and leisure the way that organisations operating in this sector do;
- (d). The Council has not yet been able to develop investment plans for Leisure Services that have generated positive financial returns (and there is no plan in place to fund the forthcoming essential maintenance work i.e. heating, lighting and roof replacement);
- (e). The Service lacks robust reporting mechanisms to evidence achievement of outcomes to the Council;
- (f). The Council is unable to demonstrate that it is achieving value for money, as the facilities are not covering their costs through income (as other sectors are achieving) and the charging structure is not necessarily as competitive in all areas of service provision as other leisure providers;
- (g). The leisure centres are often old buildings which are less attractive to residents who are sometimes able to access an increasing number of more modern and purpose-built facilities at lower cost and offering a wider range of activities than the Council is currently offering;
- (h). There is currently a lack of creativity, innovation and community led delivery within the Council's offer;
- (i). The programmes and types of activity have not always changed in a timely manner to meet the needs of the Gateshead population (in line with increases in older population, rates of obesity and low activity levels);
- (j). The pricing structures and terms and conditions of gym membership do little to support residents on low income or those most in need;
- (k). Communication, marketing and promotion of the Service and its facilities should resume and require much improvement and greater use of social media in order to better connect with users

41. The review concludes that the Council should consider alternative management options to seek to address the areas highlighted above.

### **Market analysis**

42. There are 33 private sector health and fitness (gym) providers in the Borough offering a range of services which are sometimes cheaper and more accessible than the Council offer for residents. Prices range from £14.99 per month for gym membership only, to £36.50 for membership similar to the Council's GO Membership which entitles members to access the gym, swimming pool and some specific classes at Council operated leisure centres. The Council's membership cost is at the high end of the range at £32.00 per month, however, members must commit to a 12-month membership which is not required by some other leisure providers. The Council provides only 25% of the available gym provision and is unlikely to be able to increase its market share due to the

increasing level of competition. Customer engagement suggests that pricing is often cited as a key barrier to participation.

43. It is important to acknowledge that the Council is the only provider of public swimming pools in the Borough, and although there is still good demand, the Council has only been able to recover 66% of the number of pre-COVID private (i.e. non-school) swimming lessons. This has been impacted by the shortage of swimming instructors and reduced opening times. Given the lack of alternative swimming provision across the Borough and ongoing demand, it is likely that any proposal to close swimming facilities will be very emotive for residents and local people, therefore Cabinet should not underestimate that the recommendations in this report, if accepted, will create a lot of public concern that the Council will have to manage in the best way it can.
44. Work ongoing to update the Indoor Built Facilities Strategy informs us that the number and location of leisure centres and swimming facilities within the Borough are about right, however they are no longer affordable. It is inevitable that by implementing the recommendations in this report that there will be a resultant shortage of access to public swimming pools. It is therefore necessary to undertake a consultation process which will specifically seek to understand the most appropriate prioritisation of access to a reduced volume of swimming pools (Gateshead school swimming lessons, private lessons, club, private hire and public swimming). This will be better understood following the public consultation process.

#### **Option Appraisal**

45. An options appraisal has been undertaken using similar methodology to the Councils Commissioning Toolkit to determine which option for ongoing service delivery would best meet the Council's present and future requirements. The options considered were:

- Option 1 – In house Council Management (the status quo)
- Option 2 – Local Authority Controlled Company (LACC)
- Option 3 – Single Area Leisure Trust
- Option 4 - The procurement of a service provider partner to manage the Service under a contract with the Council

46. The full Option Appraisal report is available upon request, and the evaluation scores, and narrative are included in Appendix 3. Option 4 is considered the most viable for the Council, but a brief summary of each of the options is included below:
47. **Option 1 - In house management directly by the Council** - This option is our status quo position and is a continuation of Services under the direct management of the Council. Whilst under this option the Council retains all income, it also retains responsibility for all expenditure liabilities. This option is no longer affordable and does not benefit from significant economies of scale, additional sector expertise, financial planning or Service investment, that other options do present.
48. **Option 2 - Local Authority Controlled Company** – This option requires the Council to establish and operate a Local Authority Controlled Company, sometimes known as a “Teckal company”. The Council would then enter into a contract for the management and operation of the leisure centres with the Company. Key features of this model include:

- Leasing the leisure centres to the new company;
- Funding of the company in the form of an annual grant or a management fee, or over time, it could pay a dividend to the Council if it were trading successfully (although this is not guaranteed);
- The operating risks and liabilities of the leisure centre facilities would theoretically transfer to the new company, however, it would not initially have the financial resources to absorb unforeseen operational losses and would have limited opportunity to raise capital finance;
- The new company may be structured to attract VAT benefits in the same way as a charitable company, although it cannot be a charitable organisation;
- It is likely to include some of the existing management team, but may have to recruit other senior officers to the team (e.g. finance, HR, legal), or it may choose to purchase some of those services from the Council, or elsewhere;
- Establishing such a company is not a short-term measure and this model limits any potential future access to external funds;
- It also may not necessarily improve the current financial position as it will not benefit from wider sector expertise, economies of scale, or provision of better IT infrastructure and systems.

49. **Option 3 - Single Area Leisure Trust** – This option requires a procurement process to identify a partner with which the Council can establish an independent charitable trust. The Council is not able to own the resultant charitable trust, it must remain independent from the Council to achieve charitable status.

Key features of this model include:

- The leisure centres would be leased on a long-term basis to the Trust;
- The new Trust would likely require a management fee to deliver the services, which could reduce over time (although there are no guarantees a zero subsidy would be reached);
- The operating risks and liabilities of the leisure centres would theoretically transfer to the new Trust; however, a new Trust is unlikely to have the financial resources to absorb unforeseen operational losses, particularly in the early years;
- The new Trust may be able to take advantage of the fiscal benefits attached to charities including VAT and NNDR relief, however it will have limited security and no trading history and will be more likely to rely on the Council to raise capital finance;
- It will be likely to include some of the existing management team but may attract or require other senior officers to the team (e.g., finance, HR, or legal expertise etc.);
- The Council would require a contract management team to be established to monitor the service provided by the Trust and this would be an additional cost.
- The time required and cost of setting up a new Trust can be significant as this scenario requires a procurement process to identify a trust partner;
- It may not necessarily improve the current financial position and may not benefit from sector expertise, economies of scale or provision of better IT infrastructure and systems.

50. **Option 4 - Procurement of a service provider partner to manage the Service under a contract with the Council** – This option selects a suitable service provider/partner

through a competitive tendering process and contracts with the highest scoring bidder to manage the leisure centre services. This model is likely to result in the Council contracting with either:

- a large charitable Non-profit distributing organisation (NPDO) using a model which can attract both mandatory rate relief and VAT benefits regarding the sporting exemption on large proportions of their income. (It should be noted the Council has already elected for VAT exemption).
- a large private sector national operator, which is likely to utilise a 'Hybrid' Non-profit distributing organisation (NPDO) company structure which is a legal vehicle with charitable objectives.

Key features of this model include:

- It can access discretionary National Non-Domestic Rates (NNDR) benefits (but not mandatory rate relief) and may access Value Added Tax (VAT) benefits from the sporting exemption.
- It is not a charitable company or industrial provident society, and it is not recognised by the Charity Commission.
- The Council would be the "client" and would direct service operation under a contract including a specification of service requirements and performance measurement mechanisms and would determine which sites the service will operate from.
- A fixed contract term (typically ten to fifteen years if minimal capital investment required, or longer if major capital investment required).
- A management fee would be payable by the Council to the service provider/partner (initially), which would decrease over the contract term. There is no guarantee that the service provider/partner could fund the service from its income, although this would be one of the aims.
- A specification would be developed setting out the Council's requirements in respect of Service delivery and the management of the facilities (typically including aspects such as pricing, programming, customer care, cleaning, opening hours, maintenance, reporting and quality management etc.).
- The service provider/partner undertakes management of the leisure centre facilities, gathering all income generated by the facilities and is responsible for most costs incurred by the facilities.
- Most operating risks of the sites are transferred to the service provider, although they would incorporate their own profit (risk) margin within the management fee agreed with and paid by the Council.
- Typically, the Council would continue to retain some responsibilities and risks (usually in respect of the lifecycle structural maintenance and replacement of the buildings i.e. roof, walls, large plant items etc., and an aspect of utility price volatility) and incur costs in respect of these responsibilities. These risks can be transferred depending on the age and quality of the facilities, but this typically comes at a risk price premium.
- The Council would require a contract management team to be established to monitor the service provided and this would be an additional cost to the contract price.
- Failure in service performance by the service provider may be subject to financial penalties (deductions)

- Staff would be employed by the service provider via a transfer under the TUPE regulations and the service provider will use their own central support which is usually geared towards similar arrangements elsewhere and can therefore achieve economies of scale.
- Under this model, there is greater protection from government funding cuts than the in-house model due to the contractual relationship between the Council and the service provider/partner, with the Council being bound to the contractual terms meaning there is less flexibility for the Council when considering how to allocate its financial resources.
- This option will benefit from economies of scale within the sector and will enable a reduction in Council funding over time.
- The operator would provide established IT infrastructure and systems able to generate better data that will drive continuous improvement and enable the targeting of service provision to those most in need.

51. The option appraisal (Appendix 2) highlights that the implementation of option 4, the procurement of a service provider under a contract with the Council, will best meet the Council's objectives overall and an external partner is likely to achieve:

- An improvement in the medium-term financial position to be determined through the procurement process;
- Access to better fully integrated IT infrastructure and customer care systems;
- Increased participation in physical activity within the individual leisure centres;
- Clarity, focus and greater opportunities for staff within the leisure sector;
- Additional focus on social value;
- Delivery of exceptional customer services;
- Improved communications and marketing;
- Provision of a dedicated team to ensure strong asset management, health and safety and environmental management;
- Regular horizon scanning to update the offer to customers and include new activities to support improved health and wellbeing based on improved data.

52. A small number of employees within Leisure Services do not work predominantly within the leisure centres but work to a wider sports and community development focus to support a wide range of leisure activity that takes place across the Borough. The current work to support sports and community development will remain within Council management, but their focus will be widened to better reach those most in need who are not likely to ever use the leisure centre facilities, but may, with support and encouragement, become more active in other ways by engaging in more localised community activity. They will also continue to develop the offer of support to the NHS and local GP's initiatives of social prescribing of activity such as walking, running and cycling.

### **Experience of other Local Authorities**

53. Discussions have been facilitated between Cabinet members and officers and Councillors of Sunderland Council and information was provided by Carlisle Council about their experiences of working with an external delivery model for their leisure

services. They both have long term contracts with external providers and have achieved:

- i. Large reduction in Council funding (Sunderland reduced their subsidy from £3.7m to £0.75m and Carlisle anticipate achieving zero subsidy soon from £0.74m);
- ii. Improved participation rates in sports and leisure activity provided through their leisure centres;
- iii. A targeted focus on the residents most in need;
- iv. Greater opportunities for the leisure centre employees to progress within the sector;
- v. Support to generate external funding to re-invest in their leisure facilities.

A summary of those discussions is included in Appendix 4.

### **Outline of the Procurement Process and Risks**

54. The Council should commence a procurement process using the Competitive Procedure with Negotiation to identify a partner to manage and operate the leisure centres for the next 10 -15 years. This form of process proved most favoured by the service providers during a soft market testing exercise.
55. The procurement process would involve the following steps:
  - Establishing and training the procurement team for this procurement process;
  - Developing the tender documentation including invitation to tender, specification, evaluation matrix, pricing schedule, contract terms and conditions and incorporating the approach to health and safety, systems and data, social value etc;
  - Undertaking formal market engagement to enable the market to input into the Council's approach;
  - Reviewing the documents to take account of the market engagement;
  - Seeking formal expressions of interest from the market;
  - Evaluating the expressions of interest and identifying organisations who should receive tenders;
  - Seeking initial tenders;
  - Evaluating the tenders received and potentially shortlisting the organisations to be invited to the next tender round;
  - Undertaking tender negotiation;
  - Seeking final tenders;
  - Evaluating the final tenders and identifying the most advantageous offer to the Council;
  - Awarding the contract;
  - Concluding the final contract documentation;
  - Commencing with the contract implementation (including TUPE transfer of employees to the new service provider).
56. The Competitive process with negotiation enables the Council to award a contract following receipt and evaluation of the initial tenders if the tenders meet all the Council's requirements thus not requiring the negotiation or further, final tender stage, however, it is unusual to award a contract of this complexity without going through all the stages above.

57. The timescale for undertaking this procurement process is approximately 18 months to 2 years as set out in table 5 below:

**Table 5**

<b>Key Milestones</b>	<b>Estimated time period</b>
Documentation development	October 22 – March 23
Formal Market Engagement and finalisation of documentation	March 23 to May 23
Issue of Tender for initial solutions	June 23 – October 23
Evaluation and negotiation	October 23 – November 23
Receipt of final tenders, evaluation and contract award	January 24- February 24
Contract mobilisation to Start Date	February 24 – April 24

58. In the interim period while the procurement process is underway, the Service will continue to be managed by the Council and work to improve Service efficiency and increase income to reduce Council funding.
59. It is recognised that any service provider would be unable to reduce the requirement for Council funding from the commencement of the contract and, based upon the experience of other local authorities who have adopted a similar service delivery model. The Council would have to continue to fund the Service on a diminishing level for a number of years following contract award. This continued, diminishing funding would be discussed with the tenderers during the tender negotiation and would be dependent on the Council's aspirations around social value, repairs and maintenance liabilities, share of risk on energy costs, future pandemics etc. which require further consideration and discussion with the market. There is a small chance that in the much longer term, the Service could become self-financing with a potential to return a small surplus to the Council, but this is dependent upon a lot of variables. The more we ask of the service providers in terms of wider Council aspirations and accepting greater levels of risk, the less likely we will be to achieve a self-financing position.
60. FMG and the Council have carried out a Soft Market Testing exercise with a selection of major and experienced providers to understand their appetite towards any potential opportunities to contract with the Council to operate our leisure centres. The Soft Market Testing exercise confirmed:
- A number of operators with vast amounts of experience in delivering similar contracts are interested in tendering for this work and have provided a range of case studies;
  - Most operators have expressed a preference for the Council to retain energy tariff risks some would decline to tender if this is not the case;
  - The optimum contract period appears to be 10-15 years, (minimum of 10 years);
  - Operators would be prepared to explore an equitable surplus share agreement subject to further discussions;
  - Operators generally expect to take on responsibility for reactive and pre-planned building maintenance programmes, but not building fabric, structure, roof and lifecycle replacements (which would remain with the Council);
  - Operators require freedom on commercial aspects including pricing and programming and the ability to introduce new products or ideas that will maximise new revenue streams;

- The preferred tender route is the competitive process with negotiation;
- Operators are generally happy to work with communities and develop targeted and specialist health programmes;
- Operators all believe that they can improve participation levels and deliver some reduction in budget requirement, however they would require more information to be specific about this;
- Social value is likely to be an integral part of the offer from most of the operators;
- The absence of a clause to deal with future pandemics would potentially limit the market.

61. There are a number of risks associated with this procurement including failure to attract tenders from the market, failure to accurately specify the service required, not achieving the anticipated benefits, and tender prices exceeding expectations. A detailed risk assessment and management schedule will be developed ahead of the commencement of the procurement process to mitigate as far as is possible any risks to the procurement achieving the intended outcomes. The mitigations will include continuing to work with FMG, undertaking further and extensive pre- tender market engagement, using the competitive tender process with negotiation and ensuring that there is sufficient flexibility in the contract but that it is also robust enough to deliver the outcomes that the Council anticipates.
62. It is anticipated that the cross council officer group established to undertake the review of management options would be refined to constitute the procurement team for this process.
63. Councillor input to the procurement process could be provided through continued engagement with the Portfolio Holders for Culture, Sport and Leisure to ensure that the Councillors' views are represented, particularly around the Council's wider aspirations.
64. It is anticipated that although the procurement process will be led and managed by Corporate Procurement, additional technical and legal advice will need to be sought and it is estimated that the costs associated with this would be in the region of £100k.

### **Rationalisation of Sites to address Immediate Budget Pressures**

65. All the future service delivery models (options 1 to 4) that have been considered so far in this report, including the recommended option, will not achieve a reduction in funding in the short term, and options to mitigate the overspend and immediate budget pressures as soon as possible need to be considered. As the delivery of Leisure Services is not a statutory function, and in the context of the forecasted increasing funding requirements, and in order to sustain some element of service provision, Cabinet are asked to consider 2 additional options:
- Option A – The rationalisation (reduction in the number) of leisure centre sites  
Option B – The complete withdrawal of the Leisure Service.
66. Although the options above were not included in the option report produced by FMG, they have been assessed against the same criteria as the other 4 options and the results are summarised in Appendix 5.
67. Option A, the rationalisation (reduction in the number) of leisure centre facilities, is the recommended option as it will enable the Council to reduce its funding of Leisure Services



quickly, achieve the undelivered savings of £0.600m, whilst ensuring the sustainability of the remaining sites from which to support the delivery of our Health and Wellbeing Strategy objectives.

68. An initial desktop evaluation has been undertaken of the financial, strategic, usage, performance, staff and distance impacts of each leisure centre facility site, as set out in Appendix 5 in order to better understand which facilities should be proposed for closure. It is critical to note, however, that such a decision cannot be made without awareness of the impact closure of particular facilities would have on those that use and work within them. Before any decision can be taken to close sites, a comprehensive employee, stakeholder, trade union and public consultation must be undertaken, and Cabinet is asked to agree the commencement of the consultation process to inform a future recommendation (January 2023) on identified leisure centre sites for closure.
69. Based on the desktop evaluation so far, the sites that appear at this time to be least sustainable are Gateshead Leisure Centre, Dunston Leisure Centre and the Sports Hall at Birtley Leisure Centre. It is likely that only the sports hall would be closed at Birtley Leisure Centre as the Gym is already outsourced and it would be very expensive for the Council to terminate this contract, however this would have to be explored in more detail. As stated, a recommendation cannot be made to Cabinet about which sites should be retained and which sites should close until the impact of closure is understood enabling a final evaluation process, post consultation.
70. The next steps in relation to Option A, rationalising the leisure centre sites include:
  - a. Undertake a comprehensive public consultation process to better understand the impact of potential rationalisation of the leisure portfolio on residents, service users, stakeholders and staff by mid December 22. All of the leisure centres currently operated by the Council (6 in total) will be included in the consultation process rather than only those identified in the report as less sustainable. A market research company may be engaged to support this process;
  - b. Consider capacity across the remaining leisure centres and ways in which some existing customers could continue to be served by a reduced service offer, identifying numbers that could not be accommodated by the end of December 22;
  - c. Report back to Cabinet on the final proposal in January 23 with the results of the consultation, an assessment of equalities impact and recommending specific sites for closure.
71. Option B, the complete withdrawal of Leisure Services is not recommended, because although this option will enable the Council to cease funding Leisure Services, this option will not help the Council to deliver its strategic objectives or tackle the physical inactivity and resultant ill health across the borough.

## **Consultation**

72. Consultation has taken place with the Leader and Portfolio Holders.
73. Employee consultation has been ongoing throughout the review to ensure they are kept up to date with progress where possible. Formal consultation will commence with staff and their TU representatives on 25 October 2022 regarding the proposals as set out within this report.

74. Consultation has taken place on this report with the Trade Unions and their views are:

“GMB acknowledge the dire financial situation that Gateshead Council finds itself in due to the brutal and reprehensible funding cuts from central government. We are in a situation where unpleasant options have to be considered to protect key services. The council subsidies, maintenance and upgrade costs along with the soaring energy costs make the current provision unsustainable. For too long, leisure senior management have been aware of the issues within the service but have not dealt with them. Public Health have realised that radical and painful decisions have to be made.

As a trade union, GMB have been vehemently opposed to the outsourcing of council services. We believe that in-house services provide the best quality and value for money. However, with the leisure services we reluctantly acknowledge that the current provision is unsustainable, and that drastic action is needed. We therefore accept that the council has to consider the options recommended in the report. We would stress that the relevant trade unions and employees need to be thoroughly engaged as part of the consultation process.

We would still wish to see the council retain some control over the leisure service. These will still be perceived by many members of the public as council services. We would therefore seek assurances from the council that they would support the trade unions in protecting employees pay and terms and conditions, above and beyond TUPE. Also, if facilities are to close, we would seek assurances from the council that every effort will be made to avoid compulsory redundancies, by bumped redundancies and redeployment where possible.

GMB would raise concerns that Gateshead International Stadium (GIS) is being excluded from this report. Apparently ‘commercial’ options are being considered. GIS has a significantly higher budget and overspend than any other facility (about double). This is without the investment needed to even ensure it is compliant (which could be as much as all the other centres combined). The feasibility of GIS has been ongoing for years without progress. We have a management options appraisal from October 2017 (5 years ago!) that include a procurement process to be completed by 31/3/18! Again, this is being fudged and draining essential resources from key services. How long will this go on?

Had the decision been made to close GIS then we could have potentially avoided the reality of having to close two other centres. It should be noted that GIS has by far the least benefit to the health and wellbeing of Gateshead residents of all the Gateshead leisure facilities, yet this white elephant is being allowed to plod on indefinitely whilst vital services will be decimated.”

“UNISON’s position mirrors that of our other TU colleagues. Any future reductions must be undertaken which avoid, wherever possible, any compulsory redundancies. Any future partners must honour the relevant TUPE provision, especially in relation to pension provision. If as expected, the transfer of control to partner provider will take many months – extensive time and focus **must** be spent on supporting the service, its employees and customers who have had to endure many months of uncertainty. Lastly, despite many years of assessments and plans, none of which produce any viable options, GIS position is unfortunately clearly unsustainable.”

## **Alternative Options**

75. The report clearly sets out 4 potential options for the medium to longer term delivery of Leisure Services and the rationale for recommending option 4, with 2 further options to address the short term financial position, again with a reasoned recommendation. It is not believed there are further alternative options that should be considered.

## **Implications of Recommended Option(s)**

**It is recommended that the Council move forward with option 4 and A.**

**The implications are as follows:**

### **Resources:**

76. Financial implications – The financial context is set out in the policy context (paragraphs 1-4) and within the Financial Context (paragraphs 15-21). The Strategic Director, Resources and Digital confirms that recommended option 4 will help the Council to sustain a leisure offer and reduce the Council's financial contribution in the longer term; and has the potential to provide a small income. Recommended option 5 will enable the Council to meet the undelivered savings of £0.6m and help the service to operate within its allocated budget.

An estimated £100k will be required to support the procurement process and the Director of Finance confirms that this can be funded from existing budgets.

77. HR implications –

Option 4

78. Procuring a delivery service provider/partner will result in the transferring of large numbers of leisure services employees to the new provider. Staff terms and conditions will be protected under the Transfer of Undertakings (Protection of Employment) (TUPE) Regulations.

Option A

79. The council will strive to avoid any compulsory redundancies from the rationalisation of buildings proposals. The service has continued to mitigate against any possibility of staff compulsory redundancies by appointing to vacancies on a temporary basis to allow greater flexibility to redeploy substantive staff (permanent contracts) across other facilities, as shown in Table 6 below.
80. Where we are unable to offer suitable alternative redeployment, we will work with staff and our trade union colleagues to identify staff who may consider voluntary redundancy. Every effort will also be made to support redeployment within or outside the council for those staff whose contracts would come to an end following the ending of their temporary contractual arrangement.

Table 6

	TOTAL REQUIRED HOURS PER BUILDING	TOTAL PERM HOURS CONTRACTED PER BUILDING	VACANT HOURS PER BUILDING
Gateshead Stadium	397.25	328	69.25
Birtley Leisure Centre	193.25	150	43.25
Blaydon Leisure Centre	652.88	359.5	293.38
Dunston Leisure Centre	587.625	370.125	217.5
Birtley Swim Centre	503.17	271.5	231.67
Gateshead Leisure Centre	1051.79	574.205	477.585
Heworth Leisure Centre	520.365	405.49	114.875

81. Further work will be required to be carried out to identify the impact on staff following confirmation of which site(s) will close and will be included in the next report to Cabinet in January 23.
82. Property implications – Recommended option 4 is likely to result in a long lease of the Leisure Centre premises to the successful contract provider, however it is anticipated that the Council will continue to be responsible for the building fabric, structure, roof and lifecycle replacements strategic maintenance and replacement of major plant.

Recommended option A will undoubtedly impact on the council’s leisure centre portfolio, but until the sites are identified following consultation the full impact of the property implications will not be known.

**Risk management implications**

83. The risk management implications are being managed as part of the overall project management, but to continue with the current delivery model leaves the Council exposed to the risk of having to continue to fund the Service, with an estimated £4.3m funding requirement forecast which is likely to increase further with the growing impact of inflation, rising energy costs and possible reduction in income due to the cost-of-living crisis.

### **Equality and diversity implications**

84. There is evidence that the leisure service is used by specific protected groups, including young people, older residents, and residents with disabilities. An integrated impact assessment for the Future service delivery proposal - Procurement of a service provider partner to manage the Service under a contract with the Council will be developed during the procurement process and prior to any contract award.

Any change in current leisure service delivery has the potential to have an impact on equality and diversity. An initial Integrated Impact Assessment looking at the proposed reduction in the leisure service has been prepared and is attached at Appendix 7. The planned consultation will help us to define and understand any potential impact on service users with protected characteristics.

Specific impact assessments for any future proposals to close existing Leisure centres would be submitted to Cabinet following completion of the consultation process and final evaluation, to inform their decision-making

### **Crime and disorder implications**

85. There are no known crime and disorder implications resulting from the recommendations in this report.

### **Climate Emergency and Sustainability Implications**

86. There are no known climate emergency and sustainability implications resulting from the recommendations in this report. Impact on Climate Emergency & Sustainability will be included in the assessment criteria built into the tender evaluation to ensure that any resulting contract positively contribute to the Council's aspirations in this area

### **Health implications**

87. The recommendations in the report will help the service to deliver the outcomes in the Physical Activity Strategy and enable the service to provide more focus on the less active residents of Gateshead

### **Human Rights implications**

88. There are no human rights implications resulting from the recommendations in the report.

### **Ward implications**

89. The wards that will be most impacted are those that include the existing leisure centre provision, however the impacts will not be understood until the rationalisation work has been completed and the results of the consultation are known.

### **Background Information – appending key documents**

- Report to Cabinet on 25 January 2022
- Report to Cabinet on 24 February 2015
- The Council's Indoor Built Facilities Strategy Refresh
- The Council's Physical Activity Strategy
- Leisure Services Option Report



## Appendix 2

### Breakdown by Facility from 2018/19 to date

	2022/23			2021/22			2020/21		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Facilities	Budget	Outturn*	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Birtley Leisure Centre	205	270	65	216	186	-30	211	240	29
Birtley Swimming Centre	356	496	140	343	548	205	320	659	339
Blaydon Leisure Centre	57	445	388	18	618	600	2	1,021	1,019
Dunston Leisure Centre	304	461	158	332	606	274	278	989	711
Gateshead International Stadium	565	907	343	500	819	320	500	987	487
Gateshead Leisure Centre	296	586	290	291	939	648	294	1,601	1,307
Heworth Leisure Centre	330	546	217	313	568	255	341	917	577
Leisure Admin	705	675	-30	749	644	-106	921	802	-119
Leisure Public Health Funding	-977	-977	0	-977	-977	0	-977	-977	0
Savings (undelivered)	-600	0	600						
<b>Net position</b>	<b>1,242</b>	<b>3,411</b>	<b>2,169</b>	<b>1,786</b>	<b>3,952</b>	<b>2,166**</b>	<b>1,889</b>	<b>6,238</b>	<b>4,349 **</b>
Savings mitigation (Reserves) 2021/22				-900	-900	0			
<b>Net Position (after savings)</b>	<b>1,242</b>	<b>3,411</b>	<b>2,169</b>	<b>886</b>	<b>3,052</b>	<b>2,166</b>			

	2019/20			2018/19		
	£000	£000	£000	£000	£000	£000
Facilities	Budget	Actual	Variance	Budget	Actual	Variance
Birtley Leisure Centre	213	208	-5	223	227	4
Birtley Swimming Centre	329	342	13	313	422	110
Blaydon Leisure Centre	-8	-26	-18	-99	146	245
Dunston Leisure Centre	278	323	45	296	414	118
Gateshead International Stadium	401	596	195	502	564	62
Gateshead Leisure Centre	295	354	59	292	627	335
Heworth Leisure Centre	374	344	-30	292	452	160
Leisure Admin	949	878	-71	1,193	865	-328
Leisure Public Health Funding	-977	-977	0	-977	-977	0
Savings (undelivered)						
<b>Net position</b>	<b>1,855</b>	<b>2,043</b>	<b>188</b>	<b>2,034***</b>	<b>2,741</b>	<b>707</b>

Outturn as reported at end of July 2022

\*\* Government Grants received to offset COVID impact – 2021/22 £0.829m and 2020/21 £4.658m

\*\*\* Reserves £0.203m included in 2028/19

### Appendix 3

#### Option analysis summary table

Each option has been given a raw score out of 5 for each criterion (with 5 being the highest providing significant benefits, and 0 the lowest score which is a disbenefit, for example high cost.

- 0 – is a disbenefit, for example, high cost
- 1 - A poor outcome and would not be satisfactory performance, e.g. high cost or poor outcome
- 2 - Lower than average performance
- 3 - Would deliver an average outcome when looking at the potential opportunities
- 4 - Higher than average performance, for example, higher risk transfer
- 5 - Provides significant benefits and the overall best outcome for the criteria

Area	Criteria	Weighting	Option 1 In-House Council Management		Option 2 Local Authority Controlled Company		Option3 Creation of a Single area Leisure Trust		Option 4 External Service Provider/Partner	
			Raw score	Weighted score	Raw score	Weighted score	Raw score	Weighted score	Raw score	Weighted score
Financial	Service Subsidy	40%	3	24	3	24	1	8	5	40
Financial	Financial Investment	5%	5	5	4	4	3	3	2	2
Financial	Financial implications of implementing change	5%	5	5	4	4	3	3	4	4
Non-Financial	Influence and Strategic Objectives	20%	5	20	4	16	4	16	4	16
Non-Financial	Impact on staff	10%	5	10	4	8	3	6	3	6
Non-Financial	Strategic risk approach	10%	0	0	1	2	2	8	4	8
Non-Financial	Service quality	5%	4	4	4	4	4	5	5	5
Non-Financial	Partnership and collaboration opportunities	5%	4	4	4	4	3	3	3	3
	Total Financial	50%	13	34	11	32	9	14	11	46
	Total non-Financial	50%	18	38	17	34	16	33	19	38
	<b>Overall Total</b>	<b>100 %</b>	<b>72%</b>		<b>66%</b>		<b>47%</b>		<b>84%</b>	



## Detail of Options identified

### Option 1 In-House

<b>Ownership</b>	100% Council	<b>Procurement Required</b>	No
<b>Governance</b>	Within council management structures and hierarchy	<b>Employer</b>	Council
<b>Ability to expand</b>	Limited, can only deliver local public sector services.	<b>Recommended Model</b>	No
<b>Set up costs</b>	Nil	<b>Timescales</b>	NA

### Description and assessment

This option is our STATUS QUO position and is a continuation of services under the direct management of the Council. Under this option the Council will retain all income and expenditure and control over the service. The responsibility for maintaining the sites and other assets will remain with the Council and central support services will be provided from within the Council.

### Typical advantages and disadvantages of the In House/Council Management model

#### Advantages

- No disruption to existing service provision
- The Council retains complete strategic and day to day operational control of the sites and services
- The Council retains limited professional and operational expertise of the sites' management
- Terms and conditions for existing and future staff protected under local government terms and conditions (particularly pensions).
- No one-off set up, mobilisation or implementation costs as this is the current model of delivery
- Aligns with the Council's Community Wealth Building aspirations

#### Disadvantages

- The current model is not financially viable or sustainable
- The Council retains the liability for the operational performance of the sites
- The Council retains liability for the capital maintenance costs associated with the facilities and any capital funding requirements
- The Council do not benefit from the wider professional expertise at a strategic level through an external operator whose single focus is providing leisure services
- Limited ability to transform service provision and reach those in most need
- Limited access to the benefits of developing new opportunities and from economies of scale and to the wider knowledge gained by other service providers for innovation and development
- Does not enable certainties in financial planning and can leave services exposed to financial cuts particularly when sport and leisure is not a statutory service.
- Cannot evidence that value for money is achieved through this model
- Existing overall costs of service provision considered to be high
- High risk of funding gap widening
- Technology systems not fit for purpose thus limiting good quality data, reporting mechanisms, ability to market the service on line and maintain customer contact, effectively manage bookings, payment and access systems
- Lack of experience to develop investment plans that will generate a positive return to the Council

### Proposal

The Status Quo, continuing to deliver the service through an in-house model is **not recommended** for the following reasons:

- It is not financially viable and the gap between cost and income is widening therefore requiring more Council resource;
- It is the least likely option to achieve the Council’s aspiration to withdraw funding of Leisure Services;
- The service cannot evidence that it targets those most in need (one of the key themes from the Health and Wellbeing Strategy);
- There is no evidence that value for money is being achieved;
- The Council, as an organisation, lacks necessary focus on a single service, expertise, and capacity to make the necessary transformation in service delivery;
- Additional funding would be required to invest in new technology that would enable improved reporting mechanisms, good quality data.

**Option 2 Local Authority controlled company**

<b>Ownership</b>	100% Council	<b>Procurement Required</b>	No
<b>Governance</b>	Can be designed for flexibility/autonomy. Requires a council appointed board. Service Level Agreement (SLA)/contract with parent council(s) -control test.	<b>Employer</b>	Council owned company
<b>Ability to expand</b>	Flexible -but majority of services delivered on behalf of parent council(s) –Teckal function test applies. Can be set up under a number of legal structures such as Public Service Mutual Employer	<b>Recommended Model</b>	No
<b>Set up costs</b>	£100k-£125k	<b>Timescales</b>	Min 12 months

**Description and assessment**

This option requires the Council to establish a Local Authority Controlled Company (LACC) which is sometimes known as a “Teckal company” due to the trading restrictions required to directly award a contract to it.

Once established, the Council would enter into a contract for the management and operation of the sites, facilities and services with the Company. It would require the separation of duties to enable the council to act as the “client” of the service provision, acting in the best interest of the Council and the communities that use it, and also the “Company” who would become the contractor, acting in the best interest of the company.

It is likely that the sites would be leased to the new company and the new company would either receive an agreed payment to provide leisure services and activities, in the form of an annual grant or a management fee, or it could pay a dividend to the Council if it were trading successfully and in the longer term (although this is not guaranteed).

The operating risks of the sites, associated facilities and services would theoretically transfer to the new organisation; however, the new organisation would not have the financial resources to absorb unforeseen operational losses, particularly within the first few years and would have limited opportunity to raise capital finance, as it may have limited security and no trading history and will be more likely to rely on the Council to raise capital finance.

The new company may be structured to attract VAT benefits in the same way as a charitable company, although it cannot be a charitable organisation.

It is likely to include some of the existing management team, but may have to recruit other senior officers to the team (e.g. finance, HR, legal), or it may choose to purchase some of those services from the Council or elsewhere.

### **Typical advantages and disadvantages of establishing a new Local Authority Controlled Company**

#### Advantages

- Management team are likely transfer from the Council and therefore understand the business, demographics, community and market together with the opportunities that this provides.
- Potential for increased community and staff involvement in the management of the sites and services.
- Operational risks transferred to the organisation (to an extent).
- Benefits of having a single-issue focus for the management team.
- May access VAT and NNDR benefits if structured correctly
- Potential to access to external funds such as Levelling Up Fund (L F) and Sport England's (Strategic Fund)

#### Disadvantages

- The Council potentially loses direct control of the sites and facilities to the company shareholders, and uses the contract and lease as a control mechanism
- Staff are transferred to the new organisation under TUPE, with all terms and conditions protected. As workplace pensions are exempt from TUPE, it is likely that pension benefits may only be matched to a reasonable alternative scheme (contributions matched to a maximum of 6%)
- Capital finance can be more expensive than that provided by the public sector although investments may be financed from borrowing by the Council (subject to State Aid advice)
- Can take up to 12 months + to set up and transfer.
- The new company may not be able to demonstrate track record of expertise to potential customers and investors and therefore this is a high risk option
- No evidence that this model would improve the financial performance of the service and ensure its long term sustainability
- No evidence that this model will deliver value for money as may not address the high overall cost of service provision
- No potential to develop new opportunities and from economies of scale and to the wider knowledge gained by other service providers for innovation and development
- High risk of funding gap widening
- May not have the funding or expertise to develop the technology systems to provide good quality data, improved reporting mechanisms, ability to market service on-line and maintain customer contact, effectively manage bookings, payment and access systems
- May have lack of experience to develop investment plans that will generate a positive return (unless new management is recruited)
- Additional cost to establish, implement and monitor
- Additional external legal advice would be required before this option is pursued

#### Proposal

Creating a new local authority-controlled company is **not recommended** for the following reasons:

- It is not financially viable and gap between cost and income is widening;
- It brings no benefit of additional funding, expertise or economies of scale;
- It is not likely to achieve the Council's aspiration to withdraw funding into Leisure Services and may cost more to run in the longer term due to the ongoing contract management requirement.

- There is no evidence that this delivery model will better target those most in need (one of the key themes from the Health and Wellbeing Strategy);
- There is no evidence that value for money will be achieved;
- The company will not have the ability to fund the required new technology that would enable improved reporting mechanisms, good quality data

### Option 3 Creation of a Trust

<b>Ownership</b>	3rd party provider	<b>Procurement Required</b>	Yes
<b>Governance</b>	Arranged via contract. Can be positioned to promote co-production	<b>Employer</b>	Trust via TUPE
<b>Ability to expand</b>	Contracted services delivered on behalf of council(s).	<b>Recommended Model</b>	No
<b>Set up costs</b>	£100k-£125k	<b>Timescales</b>	Min 12 months

### Description and assessment

This option requires a procurement process to identify a partner with which it can establish an independent charitable trust. The partner could be an established trust that is willing to work with the Council to establish an independent Trust created to manage and operate the Gateshead specific sites and provide the required service. It is important to note that the Council is not able to own a charitable Trust, it must remain independent from the Council to achieve charitable status. The procurement process would require a specification to be developed and the arrangements for the site transfers (likely to be long term premises leases) to be agreed within a contract.

The new Trust is likely to require an agreed management fee to deliver the required services and it is hoped that over time this fee would reduce (although there are no guarantees this position would be reached).

The operating risks of the sites and associated facilities and services would theoretically transfer to the new Trust; however, a new Trust is unlikely to have the financial resources to absorb unforeseen operational losses, particularly in the early years.

The new independent charitable Trust may be able to take advantage of the fiscal benefits attached to charities including VAT and NNDR relief, however it will have limited security and no trading history and will be more likely to rely on the Council to raise capital finance.

A new trust will be likely to include some of the existing management team but may attract or require other senior officers to the team (e.g., finance, HR, or legal expertise etc.).

The Council would require a contract management team to be established to monitor the service provided by the Trust and this would be an additional cost.

The time required and cost of setting up a new Trust can be significant as this scenario requires a procurement process to identify a trust partner.

## Typical advantages and disadvantages of establishing a new Trust

### Advantages:

- Management team are likely to be transferred from the Council and therefore understand the business, demographics, community and market together with the opportunities that this provides.
- Potential for increased community and staff involvement in the management of the sites and services.
- Operational risks transferred to the Trust (to an extent)
- Benefits of having a single-issue focus for the management team.
- May access VAT and NNDR benefits if structured correctly
- The Council can enter a long-term contract with performance guarantees.
- Value for money can be evidenced to some extent through the procurement process, but not against all sectors
- Aligns with the Council's Community Wealth aspirations of keeping the wealth local and re-investing within Gateshead

### Disadvantages

- The Council loses direct control of the sites and facilities and uses the contract and lease as a control mechanism
- The social objectives being prioritised may lead to a lack of commercialism in terms of strategic decisions
- Staff are transferred to the new Trust under TUPE, with all terms and conditions protected. As work place pensions are exempt from TUPE, it is likely that pension benefits may only be matched to a reasonable alternative scheme (contributions matched to a maximum of 6%)
- Capital finance can be more expensive than that provided by the public sector although investments may be financed from borrowing by the Council (subject to State Aid advice)
- Can take up to 12 months + to set up and transfer.
- The new Trust will not be able to demonstrate track record of expertise to potential customers and investors and therefore this is a high risk option
- Difficulty in recruiting trustees of suitable expertise and calibre and need to comply generally with charity law
- Cannot fully recover VAT on expenditure which can increase the cost associated with funding capital investment
- Limited access to external funds when compared to local authority who can access government funding such as Levelling Up Fund (L F) and Sport England's (Strategic Fund)
- No evidence that this model would improve the financial performance of the service and ensure its long term sustainability
- May not necessarily address the high overall cost of service provision
- High risk of funding gap widening
- May not have the funding/expertise to develop the technology systems to provide good quality data, improved reporting mechanisms, ability to market service on line and maintain customer contact, effectively manage bookings, payment and access systems
- May have lack of experience to develop investment plans that will generate a positive return (unless new management is recruited)
- Additional time and cost required to procure in accordance with the UK Procurement Regulations, implement and monitor the contract
- Additional external legal advice would be required before this option is pursued
- Potential loss of expertise within the Council
- Lack of flexibility within the Council to reduce cost of the service once it is contracted (depending on the contract agreed)

### Proposal

It is **not recommended** to create a trust for the following reasons:

- The timescales for procuring the trust partner and then allowing sufficient time for the trust to establish itself are prohibitive.
- It brings limited benefit of expertise, but no additional funding or economies of scale.

- It is not likely to achieve the Council's aspiration to withdraw funding into Leisure Services and may cost more to run in the longer term due to the ongoing contract management requirement.
- There is no evidence that this delivery model will better target those most in need (one of the key themes from the Health and Wellbeing Strategy);
- There is limited evidence that value for money is being achieved, as the procurement process would prohibit private sector organisations from participating;
- The Trust will not have the ability to fund the required new technology that would enable improved reporting mechanisms, good quality data
- or economies of scale;
- It is not likely to achieve the Council's aspiration to withdraw funding into Leisure Services and may cost more to run in the longer term due to the ongoing contract management requirement.
- There is no evidence that this delivery model will better target those most in need (one of the key themes from the Health and Wellbeing Strategy);
- There is no evidence that value for money is being achieved;
- The Trust will not have the ability to fund the required new technology that would enable improved reporting mechanisms, good quality data

#### Option 4 External Service Provider/Partner

<b>Ownership</b>	3rd party provider	<b>Procurement Required</b>	Yes
<b>Governance</b>	Contracted services delivered on behalf of council(s). Can be set up to allow some democratic control such as a Joint Venture Partnership	<b>Employer</b>	Service Provider/Partner via TUPE
<b>Ability to expand</b>	Contracted services delivered on behalf of council(s).	<b>Recommended Model</b>	Yes
<b>Set up costs</b>	£75k-£100k	<b>Timescales</b>	18-24 months

#### Description and assessment

This option selects a suitable service provider/partner through a competitive tendering process and contracts with the highest scoring bidder to manage the services. This model is likely to result in the Council contracting with either:

- a large charitable NPDO using a model which can attract both mandatory rate relief and VAT benefits regarding the sporting exemption on large proportions of their income.
- a large private sector national operator, which is likely to utilise a 'Hybrid' Non-profit distributing organisation (NPDO) company structure which is a legal vehicle with charitable objectives. It can access discretionary National Non-Domestic Rates (NNDR) benefits (but not mandatory rate relief) and may access Value Added Tax (VAT) benefits from the sporting exemption. It is not a charitable company or industrial provident society, and it is not recognised by the Charity Commission.

Both types of organisations above would bid against each via the tender process and the contractual relationship with the Council would be the same whichever type of organisation was successful in winning the contract.

The Council would be the "client" and would manage operations under a contract agreed by both parties which would typically comprise:

- A specification and performance management agreement;
- A fixed term contract term (typically ten to fifteen years if minimal capital investment required, or longer if major capital investment required).
- A funding agreement outlining management fee payable by the Council to the service provider/partner (initially) or from the service provider to the Council incorporating excess surplus share arrangements (in the longer term).
- A services specification setting out the Council's requirements in respect of the service delivery and the management of the facilities (typically including aspects such as pricing, programming, customer care, cleaning, opening hours, maintenance, reporting and quality management etc.).

The service provider/partner undertakes management of the sites and facilities, gathering all income generated by the facilities and is responsible for most costs incurred by the facilities.

Most operating risks of the sites are transferred to the service provider, although they would incorporate their own profit (risk) margin within the management fee agreed with the Council and achieve this profit margin by delivering the projected financial performance.

Typically, the Council would continue to retain some responsibilities and risks (usually in respect of the lifecycle replacement of the buildings) and incur costs in respect of these responsibilities. These risks can be transferred depending on the age and quality of the facilities, but this comes at a risk price premium.

The Council would monitor the operational performance and service standards delivered by the service provider, and any failures to perform may be subject to financial penalties (deductions).

Staff are employed by the service provider via a transfer under the TUPE regulations and the service provider will use their own central support which is usually geared towards similar arrangements elsewhere and can therefore achieve economies of scale.

Under this model, there is greater protection from government funding cuts due to the contractual relationship between the Council and the service provider/partner as it is more difficult to make changes to the contract terms mid-Contract (although still possible through contract variations). This also means that there is less flexibility for the Council when considering how to allocate its financial resources.

## Typical advantages and disadvantages of procuring an external service provider/partner

### Advantages

- Service provider/partner likely to optimise opportunities for income generation and economies of scale against social outcomes.
- The Council is likely to be able to transfer considerable operational risk to the operator.
- The service will benefit from broader expertise and experience of the operator through a single service focus.
- This option is most likely to increase participation of the service and therefore helping to deliver Thrive
- Access to capital finance to provide investment into facilities and services (noting potential for introducing this in the contract) although prudential borrowing by the public sector is normally the preferred approach
- The Council can enter a long-term contract with performance guarantees.
- The Council has greater certainty of cost in relation to the on-going revenue subsidy or surpluses made.
- The service provider/partner will be able to implement best practice processes and procedures and efficient and effective IT systems from the outset of the contract
- Service delivery would likely improve as many service providers/partners have recognised quality standards for delivery such as Customer Quality Management (ISO9001), Energy Management Systems (ISO5001), Health and Safety management (ISO45001) with regular training, external audits and mystery visits to drive continuous improvement.
- Value for money can be evidenced through the procurement process

### Disadvantages

- The Council does not have direct control over the sites and manages through leases and a contract.
- Operator may prioritise commercial rather than social objectives e.g., profit (unless stipulated in the contract to some extent).
- Potential loss of community focus (unless stipulated in the contract to some extent).
- Staff are transferred to the operator under TUPE, with all terms and conditions protected. As workplace pensions are exempt from TUPE, it is likely that pension benefits may only be matched to a reasonable alternative scheme (contributions matched to a maximum of 6%)
- Capital finance typically more expensive than that provided by the public sector.
- Additional time and cost required to procure in accordance with the UK Procurement Regulations, implement and monitor the contract
- Potential loss of expertise within the Council
- Lack of flexibility within the Council to reduce cost of the service once it is contracted (depending on the contract agreed)

## Proposal

It is **recommended** that the Council procures an external service provider/partner for the following reasons:

- It is the option most likely to deliver the Council's financial aspirations and deliver a financial return to the Council.
- It will bring much needed investment in booking and payment systems and processes
- The service provider will be an expert in delivering leisure services and is likely to generate new and innovative ideas of how to reach communities
- It will provide improved data that can be used to continuously improve service delivery and target those most in need



## Appendix 4

### Views of other Local Authorities who have an externalised service provision

<b>Background</b>	
Sunderland	Budget pressure, need to reduce spending significantly Had invested £50m into facilities therefore had to think of alternate delivery model
Carlisle	Recently tendered in 2015-17 following previous Trust managed service
<b>Model Selected</b>	
Sunderland	JV partner (leisure operator) to retain some control whilst benefiting from external management
Carlisle	Partnership, Concession contract
<b>Timescales</b>	
Sunderland	Procurement took 2 years using competitive dialogue process
Carlisle	Procurement took 26 months (but paused for 11 months due to flooding) via SCAPE framework for design, build, operate and maintain framework
<b>Risks and decision making</b>	
Sunderland	Operates on 50/50 basis for key decisions and financial risk via an annual joint business plan
<b>Contract Period</b>	
Sunderland	10 years with option to extend for further 10 years
Carlisle	15 year concession contract
<b>Break even period</b>	
Sunderland	7 years as proposed by the operator (although has not been achieved due to COVID) Pre partnership Funding was £3.7m, now reduced to less than £0.75m
Carlisle	Prior to the current partnership concession, the funding to operate the service was approx. £740k/annum. This annual figure is now being tapered (having been impacted by COVID and facility completion delays) to zero funding
<b>Satisfaction and benefits</b>	
Sunderland	100% worthwhile as operator invests in the equipment, buildings, marketing etc
Carlisle	Benefits from a Council perspective: <ul style="list-style-type: none"> <li>Given the Council the opportunity and confidence to borrow and invest (£27M) into the future of its leisure estate.</li> <li>Operator is a trusted partner who manages facilities efficiently and with genuine purpose and belief, achieving significant results during an extremely challenging period.</li> <li>The Council management costs of the partnership have remained low during the whole contract period allowing the Council to focus on other areas of discretionary services.</li> <li>Benefited from being part of a very large leisure management organisation with career opportunities, industry insight, procurement reach, marketing services, process and systems development. This reach is far greater than the Council could achieve on its own.</li> </ul> Benefits from a customer perspective: <ul style="list-style-type: none"> <li>Membership package offers the use of facilities across the county and beyond.</li> <li>An enhanced health and fitness offer utilising the operator's knowledge base and nationwide programmes.</li> <li>Genuine, low-cost use of facilities and some high value membership packages.</li> <li>A significantly improved programme offer, which has increased attendance.</li> <li>Enhanced opportunities to take part in integrated rehabilitation programmes via NHS partners,</li> </ul>
<b>Has the model increased Participation?</b>	
Sunderland	Yes participation has doubled due to increased marketing and better booking systems etc
Carlisle	Yes in line with general expectations related to the population demographics and local competition. They are also working with the operator and wider partners in the ICS and hospital trust on increasing participation from under represented socio-economic groups via various programmes and social prescribing projects.
<b>Are there other health and wellbeing initiatives?</b>	
Sunderland	Retained by the Council although there is an option to include some areas (parks management, casinos, other leisure activities) but it has not been taken up
Carlisle	Yes the contract delivers a whole range of services including Sport Foundation Support to provide talented young sports people the opportunity to receive financial and coaching bursaries, a Community Foundation focusing on supporting community initiatives, a Community Sport Manager post, Specialist Community Sports Development team, Specialist health team to support the Council in the development and delivery of the local health interventions programmes, British Olympic Association Open Scheme – five-year agreement with the BOA to provide employment opportunities for athletes. Local Employment Initiatives as a key local employer with a target to have a minimum 70% of those employed residing in and around the City. Provision of vocational and academic courses and qualifications in sport, leisure and hospitality. A significant part of the concession agreement gives the operator the responsibility to provide arts and entertainment events from the facilities.
<b>Facility ownership</b>	
Sunderland	The JV took a 100 year lease of the facilities, the freehold remains with the Council.

<b>Decision making body for closure or investments in facilities</b>	
Sunderland	50/50 decision made by Board and based on a business case
<b>Downsides</b>	
Carlisle	<p>Downsides:</p> <ul style="list-style-type: none"> <li>▪ Occasional 'waiting for head office approval' delays and challenges, frustrating but not too much a concern.</li> <li>▪ Limited operator investment in facilities and sometime a frustrating lack of movement on basic reactive maintenance.</li> <li>▪ Not a downside, but the operator brand is not as dynamic as we would like. It does not resonate with our local focus as a WHO Healthy City. Although, to be fair we could do more to develop this with the operator.</li> </ul>
<b>Lessons learned</b>	
Sunderland	<ul style="list-style-type: none"> <li>• Do not underestimate how long the procurement process will take</li> <li>• Conversations with staff, HR, unions and ward members are crucial for a smooth transition</li> <li>• Post award, keep in regular contact with the operator and build a good relationship</li> <li>• Ensure the right staff are involved in the negotiation and they are supported by members to make good decisions.</li> <li>• Don't change the goal posts, set out the outcomes to achieve at the outset and stick with them.</li> <li>• Work with residents and communities, communicate how the new offer will enhance facilities and market as "on behalf of the City Council".</li> <li>• Keep members fully aware of all the pitfalls and positives.</li> </ul>
Carlisle	<ul style="list-style-type: none"> <li>• Don't underestimate the time / resource requirements for procuring and developing a successful partnership.</li> <li>• Be very clear about the outcomes and outputs you may want from a new partnership – participation, access, quality, price, funding / concession, income etc.</li> <li>• Ensure early engagement (presuming this has not yet begun!) with the existing staff and management. Although TUPE will apply and offer good protection to staff they will be anxious and will need to understand the rationale and benefits the Council seek to derive.</li> <li>• Give early, serious thought to the parameters and liabilities of any contractual partnership, particularly given the challenges of 2022 and beyond. A shared risk approach is likely to work best and be more cost effective but will require some residual Council resource and expertise.</li> <li>• Ensure that effective partnership management processes and an experienced team are in place from day one of the exercise.</li> <li>• Develop a clear understanding of your facility stock and likely future capital costs to maintain and develop facilities. It would also help to understand the carbon / energy costs position of each site - potential partners will be very interested in energy costs risks!</li> </ul>

## Appendix 5

### Option analysis summary table for 2 additional options

Each option has been given a raw score out of 5 for each criterion (with 5 being the highest providing significant benefits, and 0 the lowest score which is a disbenefit, for example high cost.

- 0 – is a disbenefit, for example, high cost
- 1 - A poor outcome and would not be satisfactory performance, e.g. high cost or poor outcome
- 2 - Lower than average performance
- 3 - Would deliver an average outcome when looking at the potential opportunities
- 4 - Higher than average performance, for example, higher risk transfer
- 5 - Provides significant benefits and the overall best outcome for the criteria

Area	Criteria	Weighting	Option A Rationalise Service Offer by reducing the number of Leisure Centres		Option B Withdrawal of Service	
			Raw score	Weighted score	Raw score	Weighted score
Financial	Service Subsidy	40%	5	40	5	40
Financial	Financial Investment	5%	4	4	5	5
Financial	Financial implications of implementing change	5%	5	5	5	5
Non-Financial	Influence and Strategic Objectives	20%	4	16	0	0
Non-Financial	Impact on staff	10%	4	8	0	0
Non-Financial	Strategic risk approach	10%	1	2	0	0
Non-Financial	Service quality	5%	4	4	0	0
Non-Financial	Partnership and collaboration opportunities	5%	3	3	0	0
	<b>Total Financial</b>	<b>50%</b>	<b>14</b>	<b>49</b>	<b>15</b>	<b>50</b>
	<b>Total non-Financial</b>	<b>50%</b>	<b>16</b>	<b>33</b>	<b>0</b>	<b>0</b>
	<b>Overall Total</b>	<b>100%</b>	<b>82%</b>		<b>50%</b>	

### Option A Reduced Service Offer

<b>Ownership</b>	100% Council	<b>Procurement Required</b>	No
<b>Governance</b>	Within council management structures and hierarchy	<b>Employer</b>	Council
<b>Ability to expand</b>	Limited, can only deliver local public sector services	<b>Recommended Model</b>	Yes

#### Description and assessment

This option would involve one or more of the current leisure centres sites closing to make the service more financially viable. A large number of the employees would be retained and redeployed to other sites across the portfolio. There could be some additional one off redundancy, mothballing and demolition costs associated with this option, but they cannot be calculated until the specific sites for closure have been identified.

#### Typical advantages and disadvantages of reducing the service offer

### Advantages

- This would be the quickest way of reducing the financial contribution to Leisure Services
- The remaining sites would become more financially sustainable
- It would enable the allocation of staff to the remaining sites and support the staffing shortfall
- The Council would retain control of the amount of money that it allocated to the Leisure Service
- It would enable the Council to close and possibly demolish buildings that are no longer fit for purpose and are not financially viable to continue to maintain

### Disadvantages

- Some users would have to travel further to access Council operated leisure facilities
- Demand for public swimming may outstrip availability if one or more of the swimming pools were to close and this would likely not be replaced by the private sector
- It would reduce the economies of scale within the sector
- It would appear not to fully support the Built Facilities Strategy

### Proposal

This proposal **is recommended** and it is proposed to further investigate the **closing** of a number of Centres for the following reasons:

- It would reduce the cost of providing leisure services
- It would be one of the quickest options to implement and reduce the Councils expenditure in this area and meet the undelivered savings of £0.6m.
- A number of the sites are not financially viable in the longer term due to their age and maintenance requirements
- It would enable greater focus on the remaining sites to deliver efficiencies and income more quickly
- It would enable a greater staffing level in the remaining sites

NB. The main risk with this option is the potential loss of swimming space and potential loss of swimming lessons, public swimming sessions and swimming club access to the pools that may not be accommodated in the remaining pools as no other sector will fill these gaps.

## Option B Withdrawal of service

<b>Ownership</b>	Not applicable	<b>Procurement Required</b>	No
<b>Governance</b>	Not applicable	<b>Employer</b>	Not applicable
<b>Ability to expand</b>	Not applicable	<b>Recommended Model</b>	No

### **Description and assessment**

This option would mean that the Council would cease to provide Leisure Services and is **not recommended**. It would result in the likelihood of the current workforce being redundant, and the Leisure Centres either being disposed of or demolished.

The Council would hope that the private sector would fill the gaps in the market left by the Council although it is acknowledged that the loss of swimming space will not be filled by any other sector.

Typical advantages and disadvantages of withdrawing from the market.

### Advantages

- The current £3.4m that is currently used to fund Leisure Services could be reallocated to fund other Council priorities

There will be some additional redundancy, mothballing and demolition costs associated with this option.

### Disadvantages

- This does not help the Council to deliver Thrive or any of its sports and leisure strategies
- Funding that has previously been used to improve the service would likely have to be repaid back to the funders

This option is **not recommended** as it would not help to deliver the Council's strategies or policies.

## Appendix 6

### EVALUATION CRITERIA TO SUPPORT REDUCTION OF LEISURE FACILITIES

Score	
0	Zero impact or level of sustainability
2	Limited impact or low level of sustainability
4	Some impact or some level of sustainability
6	Medium impact or medium level of sustainability
8	High impact or high level of sustainability
10	Significant impact or significant level of sustainability

	Birtley Leisure Centre	Birtley Swimming Centre	Blaydon Leisure Centre	Dunston Leisure Centre	Gateshead Leisure Centre	Heworth Leisure Centre
<b>Strategic Impact 25%</b>						
<b>Role in achieving Strategic outcomes</b> (Physical Activities Strategy)	Limited strategic role. Competition Line UK operate the gym and the sports hall is in poor condition	Impact will depend on local communities ability to access provision at Chester-le-Street and Washington	Co-location with health centre is integral in achieving PAS outcomes	Overlaps catchment with Blaydon Leisure Centre. Centrally located near other provision	Large site provides a wide range of opportunities to achieve PAS. Centrally located, good location and transport links	Strategic position in east of borough. Opportunities to provide a wider range of provision to better suit physical activity needs of local community
<b>Score (10%)</b>	2	4	8	4	8	8
<b>Strategic implications of loss of provision</b> (Built Facilities Strategy)	Limited impact due to poor condition of sports hall and close proximity of Chester-Le-Street and Washington	The loss of swimming pool provision would have a medium impact due to the current balance of provision. The degree of the impact is dependent on the ability to access other sites	Significant impact if closed. Important strategic co-location of site in western area of the borough. Relatively modern gym and pool provision	Medium impact as main role is provision of swimming pool space, especially given that it is the deepest pool in the borough. Site is old and in need of investment (e.g. squash court area)	Significant impact due to location of site, size of site and swimming pool provision. Age of building, design and under utilisation reduce current impact	High impact as relatively new site (2010) serving east of the borough. Loss of site would unbalance pool provision, gym and class programme. Has potential to be developed
<b>Score (10%)</b>	2	6	8	6	10	8
<b>Distance to nearest public leisure facility score (5%)</b>	Chester-le-Street 2.4 miles	Chester-le-Street 2.4 miles	Dunston 2.3 miles	Blaydon 2.3 miles	Heworth 2.3 miles	Gateshead 2.3 miles
<b>Overall score</b>	2	5	8	5	9	8
<b>Overall Weighted score</b>	5	12	20	12	22	20
<b>Financial (40%)</b>						

<b>Total Income 22/23 forecast</b>	£93k	£327k	£1,003k	£794k	£1294k	£585k
<b>Total Expenditure 22/23 forecast</b>	£459k	£920k	£1,544k	£1,352k	£1,977k	£1,228k
<b>Net Direct Subsidy (10%)</b>	£366k (4)	£593k (2)	£541k (2)	£557k (2)	£684k (0)	£643k (0)
<b>Lifecycle Maintenance Total Cost (10 years) (20%)</b>	£832k (6)	£953k (6)	£100k (8)	£1,300k (2)	£9,100k (0)	£764k (4)
<b>Energy Costs (5%)</b>	£81k (6)	£173k (4)	£321k (0)	£258k (2)	£328k (0)	£306k (0)
<b>Cost to terminate equipment leases (5%)</b>	NA	NA	£100k (4)	£65k (6)	£152k (0)	£82k (4)
<b>Overall Score</b>	6	4	6	2	0	4
<b>Financial Weighted score</b>	24	16	24	8	0	16
<b>Usage (20%)</b>						
<b>Total visits per annum</b>	12,952 (2)	50,770 (2)	215,115 (6)	210,182 (6)	285,020 (8)	84,852 (2)
<b>No of individuals (swimming lessons per week) as of Sept 22</b>	0 (na)	257 (2)	726 (8)	540 (4)	507 (4)	211 (2)
<b>No of pupils (school swimming) per week as of Sept 22</b>	0 (na)	358 (4)	722 (8)	649 (8)	782 (8)	739 (8)
<b>No of Fitness members (Go membership) as of Sept 22</b>	0 (na)	119 (2)	1,806 (6)	1,204 (4)	2,313 (8)	903 (4)
<b>No of concessionary users (Go Leisure Access Card, LAC, LPDC and Young Carers)</b>	50 (2)	170 (2)	592 (4)	702 (6)	1,492 (8)	340 (4)
<b>No of Sporting Clubs using site</b>	4 (Football basketball netball) 132 heads per week (2)	1 (Birtley Swimming club) 200 heads per week (2)	12 (8 football clubs – 705 heads pw Blaydon & Gateshead & Whickham swim clubs (130 heads per week) Ry Tri Club (100 heads per week) (8)	3 (Gateshead & Whickham swim club 300 heads per week/ Gateshead synchro club 90 heads per week/Sub aqua club 25 her week/ plus school and swim galas 4/5 times per year) (6)	20 Badminton, Netball, Hockey, Karate, Korfball, County, Futsal Talmudical College, Caedmon School, Total 729 heads per week (8)	1 Football 50 heads per week (2)

<b>No of schools using site</b>	0 (na)	11 (4 schools walk) (4)	17+3 non Gateshead (0 schools walk) (8)	12+1 non Gateshead (2 schools walk) (4)	12 (8 schools walk) (4)	18 (6 schools walk) (8)
<b>Overall score Score</b>	2	4	6	6	6	4
<b>Usage weighted score</b>	4	8	12	12	12	8
<b>Staff 5%</b>						
<b>Staffing requirement</b> (No of FTE's) (4%)	5.22 (8)	13.6 (6)	17.65 (6)	15.88 (6)	28.42 (2)	14.06 (6)
<b>Staff vacancies</b> (No of FTE's) (1%)	1.17 (8)	6.26 (4)	7.93 (4)	5.88 (4)	12.91 (2)	3.10 (6)
<b>Overall Score</b>	8	6	6	6	2	6
<b>Staffing weighted score</b>	4	3	3	3	1	3
<b>Performance Benchmarking (10%)</b>						
<b>Income per m2</b> (£250-£400)	£48 (0)	£185 (4)	£379 (8)	£231 (6)	£129 (2)	£241 (6)
<b>Income from swimming per m2</b> (£750-£1500)	NA	£593 (2)	£957 (8)	£904 (6)	£843 (5)	£795 (4)
<b>Staff costs as % of income</b> (50%-75%)	311% (0)	180% (2)	85% (6)	107% (4)	93% (4)	104% (4)
<b>Utility costs per m2</b> (£35-35)	£44 (4)	£93 (4)	£195 (2)	£83 (4)	£37 (6)	£138 (2)
<b>Maintenance budget per m2</b> (£20-£25)	£15 (2)	£23 (8)	£24 (8)	£17 (2)	£9 (0)	£29 (4)
<b>Secondary income</b> (£0.25-£0.35)	0 (0)	£0.12 (4)	£0.07 (2)	£0.08 (2)	£0.04 (2)	£0.11 (4)
<b>Fitness Income per station</b> (£6,500-£8,500)	NA	NA	£6,901 (8)	£5,836 (4)	£5,911 (4)	£5,273 (2)
<b>Fitness member per station</b> (20-30)	NA	NA	23 (8)	18 (4)	21 (8)	16 (4)
<b>Score (ave)</b>	3	4	6	4	4	4
<b>Performance Benchmarking Weighted Score</b>	3	4	6	4	4	4
<b>Total weighted score</b>	40	43	65	39	39	51
<b>Centre ranking in terms of most to least sustainable</b>	4 Birtley Swimming Centre	3 Birtley Leisure Centre	1 Blaydon Leisure Centre	5 Dunston Leisure Centre	5 Gateshead Leisure Centre	2 Heworth Leisure Centre

<b>Results of consultation To be inserted</b>						
<b>Final score Following consultation</b>						