



**Improvement
East**

Partnership
for Improvement
and Efficiency

A Guide to Externalising Leisure Services

March 2011

T R I B A L

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ACTIVE THINKING

A Guide to Externalising Leisure Services

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A Guide to Externalising Leisure Services

1. Introduction

There has been a steady growth in the externalisation of leisure services by local authorities within the East of England over the last ten years. Less than 30% of local authorities within the region continue to operate leisure services in house. Most have outsourced their leisure services to private sector operators or transferred them to leisure trusts. By learning the lessons of some of those that have already externalised leisure services, those authorities considering whether to do so will be more prepared and have a much better idea of the level of potential savings that alternative models of service delivery can bring.

Local authorities are under immense pressure to deliver better services with fewer resources. The externalisation of the management and delivery of many public services to either the private or voluntary sectors can enable local authorities to continue to provide high quality and widely accessible services with fewer resources.

This document provides a guide to the models available to local authorities considering externalising the management and operation of leisure services.

The guide explores how each externalised model of management operates, together with the pros and cons of each. Case studies are included to illustrate the experience of individual local authorities implementing these alternative models of management.

Most local authorities will be interested in the potential savings externalisation can deliver and the process for deciding upon the preferred model of alternative management and delivery.

The guidance provides an indication of the potential savings that could be achieved from each model of externalisation, recognising the factors which influence the level of savings realised, together with a simple toolkit to help local authorities carry out an initial appraisal as to which model is likely to be the most suitable.

The efficiency savings that externalisation can deliver can vary greatly and is influenced by a range of factors, such as the efficiency and effectiveness of the existing in house service, the scope to increase income generation and the state of existing facilities, as well as the alternative model of service delivery chosen.

Furthermore evidence suggests that whilst outsourcing appears to be more efficient, no single model of externalisation has been shown to deliver demonstrably better services.

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2. Externalisation Options

There are essentially five models of alternative leisure management available to local authorities. These are:

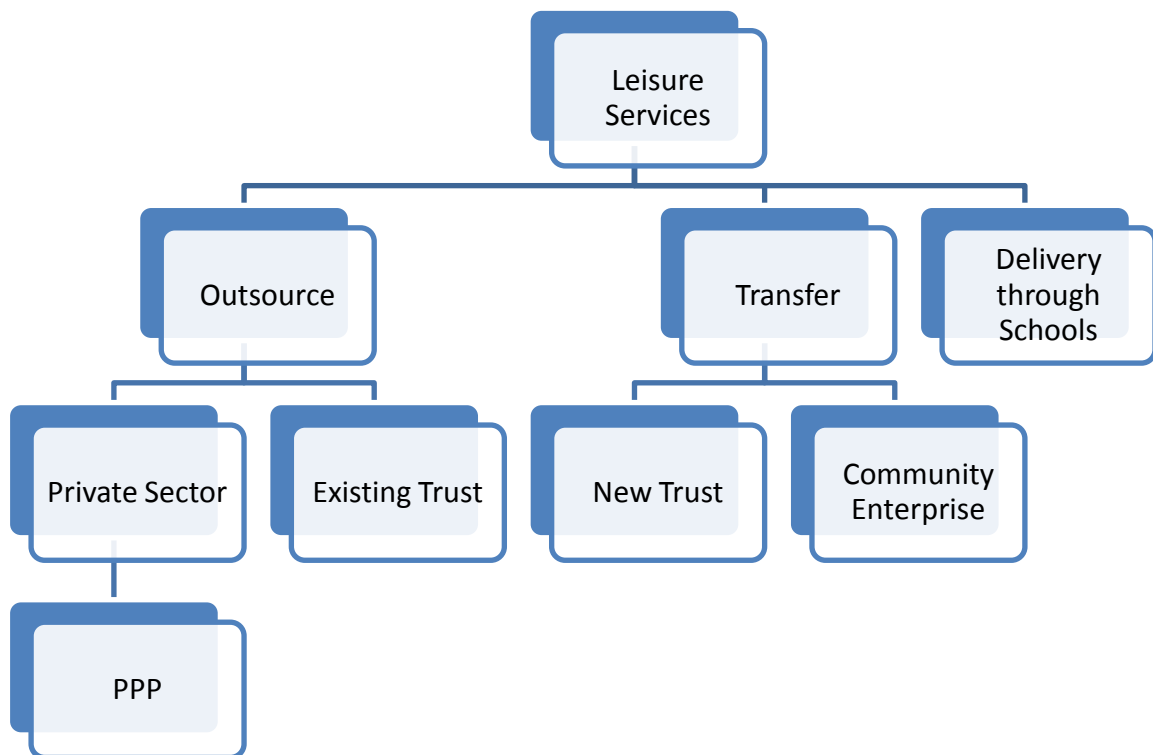
- Outsourcing to a private sector operator (which may or may not include a hybrid trust model)
- Outsourcing to an existing trust
- Transferring the management to a newly established trust or community enterprise
- Establishing a Public Private Partnership (PPP)
- Delivering leisure services through schools

In theory other models may be possible but we are unaware of these actually being implemented in the UK in any scale, if at all. These other models include the sale of assets and the privatisation of leisure services.

Each model is considered in more detail in the following sections. As the guidance only considers models of externalisation, the pros and cons of continuing with direct in-house management have not been considered as an option.

The different models are summarised in the diagram below.

Models of Leisure Services Externalisation



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3. Context

Before addressing the alternative management models available in more detail, it is important to provide some context around the provision of leisure services to the community.

Leisure is a discretionary service

The provision of community leisure services is discretionary and as such local authorities do not have to provide these services. They are non statutory and local authorities are not given any direct central government funds to provide such services. Therefore at times of significant financial pressures discretionary services invariably suffer more from budgetary reductions and this is particularly the case at the current time with local authorities looking at major savings in order to secure savings and minimise the impact of cuts on communities. Nonetheless despite its discretionary nature, very few local authorities have withdrawn from providing or funding community leisure services.

As the use of alternative management models has grown the number of authorities providing leisure services directly has fallen dramatically. It is now estimated that less than 50% of authorities still manage leisure services directly, and that figure is only 29% in the East of England.

Local Authorities are taking on more of an enabling role, working with alternative service providers to reduce the net costs of providing leisure services and moving to focus their investment on maintaining and enhancing facilities to make them more financially viable.

Most leisure services are charitable activities and exempt from many taxes

The provision of recreation (and hence many leisure services) is defined as a charitable activity and exempt from many forms of taxation, including National Non Domestic Rates (NNDR) and Value Added Tax (VAT).

Transferring the management of leisure services to a charitable Non Profit Distributing Organisation (NPDO) or more commonly referred to as trusts can deliver

significant financial benefits for a local authority in the form of a mandatory 80% relief from NNDR with the option to grant a further 20% discretionary relief. As 25% of the discretionary relief is met by central government with the rest funded locally, the maximum savings to a local authority gained through NNDR relief is 85%. There is therefore a clear financial incentive for local authorities to transfer their leisure services to a charitable trust with savings on a portfolio of facilities usually running into six figure sums. All of the main private sector operators have now established hybrid not for profit structures to enable them to offer the financial benefits charitable trusts can deliver.

VAT also offers potential financial savings as unlike in house and private sector operators, charitable trusts do not have to account for VAT on most of their activities as it is exempt income. However they cannot recover the input costs associated with generating exempt income. Though not as great a saving as NNDR VAT offers the potential for further savings. Where income is significant or has the potential to grow significantly there is likely to be a significant financial saving through managing services through a charitable trust.

The state of the leisure infrastructure

A significant proportion of the current stock of community leisure facilities will need significant investment or replacement over the next few years. This investment will need to be found in order to at least maintain current levels of provision. Private sector and in particular existing not for profit leisure providers would find it very difficult in the current financial climate to raise the necessary levels of investment to replace public sector capital funding. Other models such as PFI have been shown to be expensive and require central government grant support.

With the high costs of operating older inefficient facilities there is significant potential to replace ageing assets with

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modern fit for purpose facilities, as well as to modernise existing facilities with new plant, equipment and services. Through invest to save and rationalisation programmes there is scope to invest in facilities that deliver revenue savings in excess of the costs of finance.

Given the ability of the public sector to access finance more easily and at lower rates than private sector or trust providers it is likely there will remain a need for local authorities to act as the main source of capital investment in community leisure facilities. If the public sector cannot finance this investment it will require different funding models and new forms of provision to be developed.

Leisure services support costs

Leisure services and facilities employ large numbers of staff and therefore have relatively large support service cost allocations. When considering alternative management models local authorities do not always fully assess the impact of externalisation on support costs. In many instances authorities have missed opportunities to realise significant efficiency savings in relation to central services. With the pressures on budgets authorities are now beginning to address central support costs corporately, and this offers more opportunity for authorities to realise the potential savings in support costs offered by externalising leisure services.

Externalised leisure services are more efficient but no single management option provides better services

A 2006 report by the Audit Commission¹ did not clearly identify any one management model as offering better value for money or more investment or higher levels of usage. However, it did find that in-house services tend to be significantly more expensive than the alternative externalised options and this was becoming more marked over time.

Benchmarking analysis carried as part of the report indicated that private sector operators required lower net subsidies than in-house or trust operations. The analysis suggested that the cost of providing leisure services is significantly lower with privately contracted services than with trusts or in-house management. However there were no noticeable differences in the quality of services, the amounts of investment nor the levels of usage of facilities managed in house, through trusts or by private sector operators. Direct comparisons are difficult to make because the facilities concerned may not be comparable.

The analysis suggests that solely on cost grounds private sector managed facilities operate more efficiently than in house or single contract trusts. This is supported by the fact that private sector operators manage many more centres than in-house teams or trusts and therefore can bring significant economies of scale. However trusts that operate across more than one authority area have been shown by their success in winning new contracts to be competing effectively on cost and value for money grounds with the private sector. Further benchmarking analysis is required to identify trends in value for money and efficiency and to help local authorities decide on the best model. In most instances only market testing services through competitive tendering will ensure that potential efficiency savings and service improvements can be realised.

¹ Public Sport and Recreation Services: Making Them Fit for the Future published by the Audit Commission in 2006

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4. Leisure Market in the East

There are 47 Unitary and District Councils in the East of England providing leisure services and Figure 1 sets out how they are managed. 17 of them (36%) operate their leisure centres through trusts of which 14 are trusts established by local authorities. Only 3 authorities have

outsourced their leisure services to existing trusts. 17 authorities (36%) have outsourced the management of leisure centres to private sector operators, 3 of which through PPPs. 13 local authorities (28%) run their leisure services through public sector partners, all bar one of which use an in-house Direct Services Organisation.

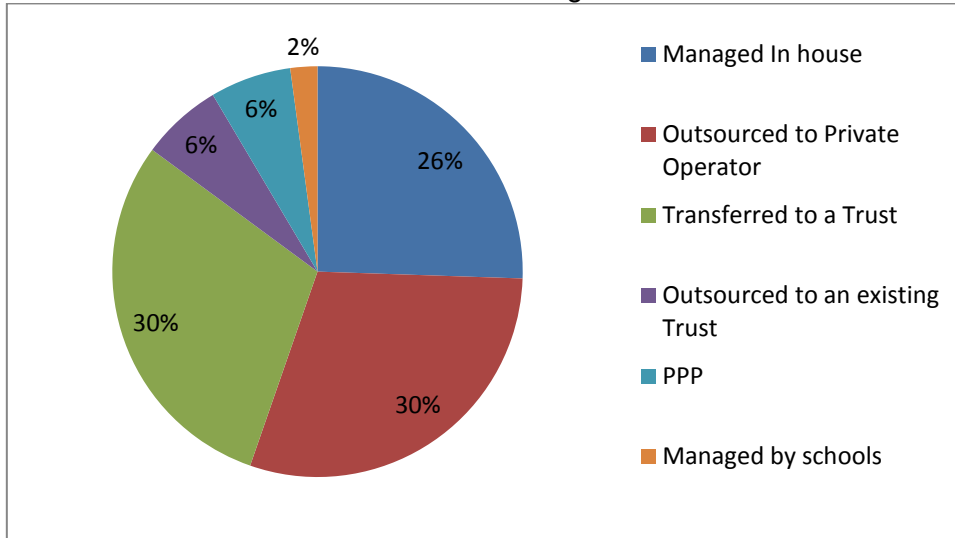


Figure 1 - Leisure Management Delivery Models

Figure 2 sets out the number of centres being managed by the various models, which are roughly equally split between in-house, private sector and trust management, giving a total of circa 167 leisure centres.

(Figure 3) shows that whereas in-house and trust operators manage on average around 4 centres each, just five private sector operators manage 53 centres, an average of 11 centres each operator. The far higher number of centres under management per operator provides significant economies of scale for the private sector, bearing in mind these operators also manage hundreds of other leisure centres across the UK.

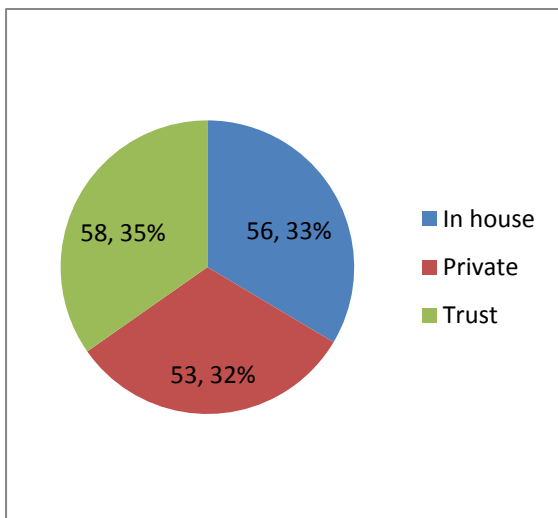


Figure 2 - Centres Managed

Breaking down the number of centres managed by the number of operators

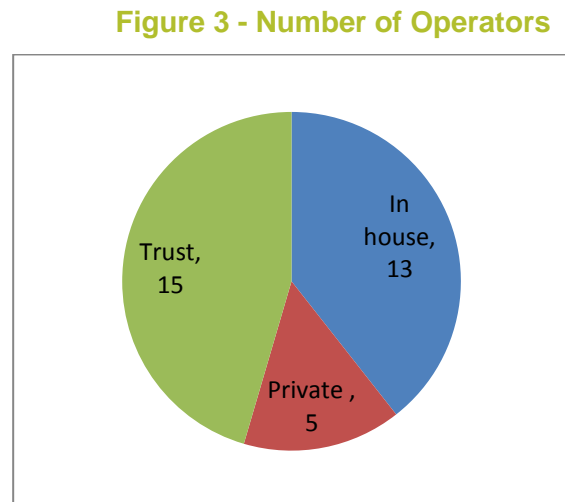


Figure 3 - Number of Operators

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5. Outsource to the Private Sector

Private sector outsourcing is the most common alternative delivery model and has been around since the mid 1980's when a number of management buy outs of in-house leisure operations created the first leisure management companies. This was followed by a number of existing outsourcing companies expanding into the leisure management market.

The main operators are DC Leisure, Leisure Connection, Parkwood Leisure, Serco and SLM with a few smaller operators such as Virgin Active. The private sector accounts for roughly a third of the community leisure market in terms of number of local authority contracts.

As with any typical outsourcing, in leisure it involves the provision and management of the service being transferred to a private sector operator following a competitive procurement process. The services include the management of facilities such as leisure centres, swimming pools, sports halls and golf courses. Often cultural services, such as the management of theatres and larger entertainment venues are also included in the outsourcing. Services such as sports development and the management of external sports facilities tend to remain in house or are subject to separate management arrangements.

All the staff involved in the provision of the services being outsourced are transferred under TUPE regulations. Contracts typically last for 5 to 10 years with options to extend, although increasingly longer term contracts are being entered into as this enables more investment to be made into facilities and services.

Private operators can bring investment into leisure facilities and services with many contracts involving the modernisation of facilities, such as improved reception and changing areas and the inclusion of fitness facilities. These improvements are usually driven by projects that generate more income to cover the costs of investment. In recent years there has been a move towards Councils funding investment as they can

access funding at lower costs of capital than private operators.

Commissioning Process

Leisure services are classified as a Part B Service under the EU Procurement Regulations. This means the normal procurement rules do not apply (such as advertising in the OJEU, service value thresholds, etc). When outsourcing services local authorities need therefore only comply with their own internal standing orders. Tenders therefore are often only advertised in specialist leisure management media or through select lists, although some authorities prefer to use the OJEU process.

A summary of the commissioning process is set out below:



The commissioning process should take around 9 months from advertising the tender to contract signature, with a short period of mobilisation prior to transfer of the services. Around 3 months should be allowed for at the beginning of the process to allow time to confirm outsourcing is the best route, to prepare the tender and contractual documentation and to appoint any external advisors to support the in house team.

It is important to note that all of the main private sector operators now provide their

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leisure management services through hybrid not for profit structures. This involves a Council contracting with a trust set up by the operator to whom they sub contract the management function. This model allows local authorities to benefit from the NNDR relief available to trusts, whilst still benefitting from the services and expertise of a larger private sector partner. At least one hybrid trust can also deliver some net VAT savings.

Indicative savings

The level of potential savings that can be secured through outsourcing to a private sector operator is very much dependent on how well the existing services are performing, the condition of the facilities and the cost of central support services.

An in-house service generating high levels of income from well maintained facilities may struggle to significantly increase income but there would be efficiency savings in areas such as support costs, in addition to NNDR savings.

Where benchmark analysis indicates that an in-house service is under performing, a

private sector operator should be able to significantly increase income generation and reduce some operating costs.

Where investment in facilities is required some of the savings will need to be recycled to fund the investment, however this should lead to an improvement in net operating costs and a reduced management fee.

Some of the savings generated by a private sector operator will be absorbed by the management fee and central support costs (combined around 13% of turnover). However these should be significantly less than existing in-house support cost allocations.

Set up costs are estimated at £30k - £40k excluding any internal costs and officer time during procurement.

Overall savings of between 20%-30% should be expected on existing expenditure, higher if an Authority is fully able to realise savings in in-house support costs.

Pros	Cons
NNDR savings	TUPE transfers can be expensive
Protects resources by ring fencing spending through a Contract	Ties Authority into long term contract which may be inflexible
Low set up costs and lower support costs	Authority will need to realise savings in back office support costs
Likely to increase income generation	Savings reduced by need to pay a management fee
Access to external investment	External investment can be expensive
Economies of scale and access to specialist services such as health and safety	Additional contract monitoring costs
Transfer of operating risks	Authority usually retains lifecycle risk

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Case Study: Mid Suffolk Council - Outsourcing to a Private Sector Operator

The Council have a 15 year agreement with SLM to manage and operate two leisure centres which has delivered net savings now in excess of 60% of the original in house expenditure on the service.

Rationale

- *Following a Best Value review in 2003 the Council decided to explore outsourcing the management of its two leisure centres on the grounds that it would struggle to find the necessary investment to continue to provide services at the current level. The Council identified a need to invest £3.6m in the leisure centres to bring them up to a modern standard, funding the Council felt it would struggle to raise internally. Outsourcing was felt to offer the opportunity to secure external investment and deliver efficiency savings for the Council*
- *In addition the Council felt that running just two centres more than 20 miles apart made it hard to secure economies of scale such as sharing staff and providing specialist leisure staff.*
- *The Council ruled out creating a new trust as it felt that any new organisation would lack the critical mass and sufficient economies of scale to be sustainable in the long term. In addition there were concerns as to whether there would be enough people with the right skills and experience to come forward and act as trustees. Transferring the services to an existing local trust was also ruled out. At that time there were no trusts within a reasonable distance and the Council was concerned that any savings and benefits would not be passed back to Mid Suffolk but absorbed into a larger entity.*
- *There were also concerns that a trust would mean a loss of control and influence which could cause problems in the future if the Council wanted to make changes to the service. A fixed length agreement was felt to offer more flexibility for the Council.*

Implementation

- *A procurement exercise was carried out in 2004 which took around 15 months to complete. The contract was advertised nationally but not through the OJEU as leisure is defined as a Part B service and therefore exempt from much of the EU Procurement Regulations. Bids were received from private and existing not for profit operators and SLM were chosen as the preferred partner in October 2005.*
- *The criteria for selection were based on a range of factors including cost, quality of service proposals, facility and programme development, synergy with the Council's policies and plans, continuous improvement, staffing and the operating and partnership model. The ability to secure investment was deemed a critical factor.*
- *External leisure and legal advisors were used to support the in house team and they offered excellent value for money.*
- *The contract was for 10 years with a five year extension agreed in 2010 taking the contract to 2020. The fee is indexed each year by RPI.*

Savings and Other Benefits

- *The contract delivered an initial saving to the Council worth 44% of the in house budget, including support service costs allocations. The savings were primarily delivered through savings in support costs and NNDR. Further savings have since been delivered through invest to save schemes which has reduced the management fee by a further 24%.*
- *Investment in facilities has helped usage increase by around 40% to more than 700k visits per annum.*

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Lessons Learnt

- *Councils can raise funding far cheaper than private companies and instead of SLM investing capital the Council made the investment directly with a corresponding reduction in the management fee.*
- *The flexibility of the partnership and the Contract has allowed significant investment to be made into the facilities over the last five years which has gradually reduced the management fee paid by the Council.*
- *The Council had just entered into a strategic partnership with Suffolk County Council and BT which included support services. Having this partnership in place allowed the Council to realise savings in support costs. Without the partnership being able to absorb the surplus resources it would have been difficult for the Council to realise these savings and it would only have been possible over a period of time.*
- *Invest in the documents and the process to make sure the right partner is chosen. The relationship between the two parties is key, not the contract, and it allows creativity and innovation to thrive.*
- *The Council have enjoyed very low staff turnover since the start of the contract. The staff were on board and supportive throughout the process. The Council did not want a typical client contractor split. Transparency is very important with a high degree of honesty and openness.*
- *Very little contract management is undertaken by the Council and there is no dedicated contract monitoring post. This avoids resources being diverted in producing lots of unnecessary management information.*
- *Very few complaints have been received by the Council, with less than ten in five years. Any issues and problems are largely dealt with and resolved directly by SLM.*
- *The Council believes that it is important and in its long term interests that the deal works commercially for the partner. Cutting the contract costs too much would in its opinion have impacted on the quality of the service and lead to problems in the future.*
- *The Council felt it should have negotiated a 50-50 share of any excess profits across the contract to allow it to benefit from any significant growth in usage and over performance.*

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Case Study: Rochford District Council - Outsourcing to a Private Sector Operator

- Rochford District Council have a 20 year agreement with Virgin Active to operate, manage and maintain six leisure and cultural facilities, three of which are sport and recreation centres.

Rationale

- The Council had transferred the management and operation of its leisure facilities to a private sector operator in the very early days of outsourcing through a management buy-out of the leisure DSO in 1988. The new company Circa Leisure subsequently merged with another management buy-out company to form Leisure Connection. The Council therefore had no issues with leisure services being outsourced. As part of a Best Value review in 2001 the Council decided it would re-tender the leisure management contract to seek further efficiencies and investment in modernising and improving its facilities.

Implementation

- Following the Best Value review a competitive procurement process was undertaken in 2001/02 which resulted in the new contract being awarded to Holmes Places (who were subsequently taken over by Virgin Active in 2006). Holmes Place were chosen on the basis that they offered the Council a longer term 20 year contract, significant investment in the facilities as well as in sports and arts development, the full transfer of lifecycle and repairs and maintenance responsibilities and a 50-50 profit share arrangement. The Council used its Best Value advisors to help them manage the procurement process.

Savings and Other Benefits

- The contract costs the Council £290k per annum and when let in 2002 it did not deliver any direct savings on the previous contracting arrangements. However, the Council benefits from £45k investment per annum in sports and cultural development as well as a share of any excess profits. In addition, the Council no longer has any lifecycle obligations and over a period of 20 years this is expected to generate an overall net saving for the Council.
- The Council has benefitted from in excess of £3m investment in its leisure centres, funded by Virgin Active. Together with significant Council investment this has enabled a major refurbishment of the main Clements Hall leisure centre and the rebuilding of the other main leisure facility in Rayleigh.
- Pay as you play access has been maintained and protected and all Rochford residents enjoy discounted charges and membership rates. For example, a monthly all inclusive gym membership at £42 per month is 28% less than a standard membership at one of Virgin Active's other clubs.
- There is limited contract management and monitoring. The operator has taken on board all of the Council's policies and plans. The Council gets regular management and performance reports and there are quarterly partnership meetings.
- Virgin Active is felt to be an excellent operator enjoying high levels of usage and customer satisfaction. For instance, although the Council did not participate in the recent free swim initiative, the number of actual swims increased over the period due to the quality of the facilities and the swimming programme.

Lessons Learnt

- Inviting variant bids encouraged innovation and delivered a much better value for money proposal for the Council.

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- *The Council had invested in maintaining its facilities and keeping them in a good state of report. This made it feasible and much easier to transfer lifecycle risks to the private sector partner, which is very rare in leisure management outsourcing. The operator undertook full structural surveys to ascertain the state of the facilities and to identify the likely long term investment needs.*
- *The faculties are managed and operated in the same way as any other of Virgin Active's private clubs and there is a high degree of central control. This brings benefits in terms of the quality of its support services such as management information, marketing and communications, and purchasing power which keeps running costs low.*
- *The centralised management means that it took time at the start of the contract and when Virgin Active took over Holmes Place to build awareness and understanding of the nature of the Rochford contract, such as the arts and entertainment aspects, and there is less flexibility at the local level around using local contractors.*
- *There is a high degree of transparency in the partnership and the Council can see how well the facilities operate compared to the rest of Virgin Active's clubs. Indeed, the Clements Hall centre is one of the top performing clubs in Virgin Active's portfolio. Whilst no longer its responsibility the Council can also see where Virgin Active is investing in the facilities, such as in environmental improvements to reduce running costs. This will help ensure the facilities are handed back to the Council in relatively good condition in 2022.*
- *Retaining some control over pricing allows the Council to have some influence over user charges. For example, the Council has limited the level of price increases to RPI in recent years.*
- *The Council does not get involved in day to day management and operations. The programming of the centres is Virgin Active's responsibility.*
- *The Council buys space (at a discounted rate) in the centres for sports development allowing it the freedom to vary its sports development programme and use alternative facilities such as schools.*
- *The Council feels it was lucky in securing Virgin Active as a partner. The location and local demographics meant they were seeking a site in the Borough and the procurement coincidentally provided an opportunity for Virgin Active. They haven't entered into any similar arrangements elsewhere in the UK and the Council feels that it is only the fact that the main centres operate as well as the rest of its portfolio and generate a profit for the company that they remain committed to the partnership.*
- *The quality of Virgin Active brand and its customer services is very high and the Council felt that it could not get this level of service from any of the traditional leisure management contractors in the market. Customer satisfaction and retention levels are very high and there have been very few complaints to the Council. Staff turnover has also been relatively low.*
- *Flexibility in the contract is important. It allows some of the smaller facilities to be taken out of the contract with six months notice from either party. The contract also allows the Council the potential to discuss invest to save projects to increase income and reduce costs, for example through introducing football and soft play facilities to reduce the net costs of the contract. This will enable the Council to secure savings on the contract as part of the wider financial pressures on the Council.*

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6. Outsource to an Existing Trust

Outsourcing to an existing trust has become a significant area of growth as more of the trusts set up over the last decade or so begin to bid for and win work outside of their host authority boundaries. For example, in the East of England Stevenage Leisure and Hertsmere Leisure now operate three separate contracts outside of their original authority areas.

As with outsourcing to a private leisure operator, outsourcing to a trust involves the provision and management of the leisure service being transferred to an external organisation, in this case an existing trust, following a competitive procurement process.

All the staff involved in delivering the services are transferred under TUPE to the new organisation. Contracts typically last for 5 to 10 years although increasingly longer term contacts are being entered into, as this allows investment to be made in the facilities and services.

Commissioning Process

Again as leisure is a Part B service the contracts are often only advertised in specialist leisure management media or through select lists, although some Authorities prefer to go through the OJEU process.

It is important to note that although an Authority may prefer outsourcing to an existing trust, as opposed to a private company hybrid it cannot limit bids solely to existing trusts. This would be seen as anti-competitive and contrary to EU rules on fairness and transparency. Nor can an authority simply transfer its leisure services to an existing trust, without some form of competitive process as this would be contrary to an Authority's own standing orders. Authorities can however express a preference for a trust to manage and operate its facilities, which then allows those private sector operators with hybrid trust structures to bid.

Some authorities may find it difficult contracting with what could be perceived to be another's former in-house leisure

service, especially if it is a neighbouring authority which most tend to be.

The prospect of a more remote relationship can also act as a deterrent to some authorities when considering the established trust option. An authority's perceived control and influence is weakened as decisions are made by the existing board of a trust, which will not have any local political or community membership. A local management group is often formed to help inform and influence the trust and reflect local issues.

A summary of the commissioning process is set out below, which is exactly the same as the process for outsourcing to a private sector operator:



The commissioning process should take around 9 months from advertising the tender to contract signature, with a short period of mobilisation prior to transfer of the services. Around 3 months should be allowed for at the beginning of the process to allow time to confirm outsourcing is the best route, to prepare the tender and contractual documentation and to appoint any external advisors to support the in house team.

Indicative savings

Outsourcing to an existing trust potentially offers some of the biggest financial

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savings. Firstly, the competitive procurement process will ensure that an Authority benefits from the most cost effective bids and can choose the most financially advantageous. Secondly, the costs of procuring with an existing trust are significantly less than those associated with setting up a new NPDO.

As with outsourcing to a private sector operator, the potential savings are very much influenced by how well the existing services are performing, the condition of the facilities and the cost of central support services. They will also be affected by how efficient the existing trust operates and its experience of delivering contracts outside its host authority area.

In principle, a larger existing trust with a number of leisure management contracts won competitively should be able deliver savings at least equal to those offered by a private sector operator, given the potential VAT savings and lower management fees.

Set up costs are estimated at around £30k - £40k excluding any internal costs and officer time during procurement.

Overall savings of between 25%-35% should be expected, higher if an Authority is fully able to realise savings in in-house support costs.

Pros	Cons
NNDR, VAT and support cost savings	Limited control and influence over trust
Low set up costs, overheads and support costs	Authority into long term contract which may be inflexible
Low management fee	Capacity of trust to expand its services
Economies of scale and access to Specialised leisure management	TUPE transfers can be expensive
Competitive process should maximise potential savings	Additional contract monitoring costs
Protects resources by ring fencing spending through a Contract	Authority will need to realise savings in back office support costs
Transfer of operating risks	Authority usually retains lifecycle risk
Access to external investment	External investment can be expensive

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Case Study: Three Rivers Council - Outsourcing to an Existing Trust

The Council brought together four separately managed facilities under one combined 10 year contract with Hertsmere Leisure, expected to delivering a net saving of circa £1million over the life of the contract and a 50% reduction in spending on the previous arrangements.

Rationale

- The driver for the project was a desire to deliver a more integrated and efficient leisure service. Previously the main leisure centre was run by a private management contractor, one centre was run in house and a golf course facility was operated through three separate contacts. The Council decided to go to the market after a 2004 review of its management arrangements recommended that sports development should be retained in house and the rest of the service should be outsourced as one Contract.

Implementation

- The decision was taken not to go down the route of establishing a new leisure trust on the basis that as Three Rivers is a small authority with relatively few facilities it lacks economy of scale and would be financially unsustainable in the long term. In addition, a new trust would carry initial set up and implementation costs, something an existing trust would not have to carry.
- The Council has a long history of outsourcing services and the main leisure centre has been managed externally since 1996.
- The business case for outsourcing was prepared externally but the procurement process was managed in house as the Council has experience of outsourcing services corporately and has sufficient capacity internally. The 10 year contract was let in 2006 to Hertsmere Leisure, an existing trust operating in Hertfordshire.
- The contract specifications were prepared internally using previous contracts and examples collated from other Councils. The Council used the new contract to move from an input to an outcome based performance regime with extensive self monitoring. Quality measures such as National Benchmarking Surveys (NBS), Quest, customer surveys, mystery visits, etc are used to monitor performance.
- Initially just two of the facilities were outsourced with the remainder of the facilities and services coming on board in 2008. This helped address concerns the Council had about transferring in house staff and also the fact that it was Hertsmere's first external contract.
- The procurement process was managed through the EU Procurement Process and attracted a lot of interest from service providers. Hertsmere Leisure was selected on the basis of their bid scoring highest overall on Council's cost and quality criteria. A key issue for the Council was the delivery of the NDDR and VAT benefits and financial savings, so the preference was for a trust, although private sector bidders were not ruled out and indeed they did bid using a hybrid trust structure.

Savings and other benefits

- The outsourcing has delivered a saving of circa £100k per annum which represents a saving of around 50% on the previous contracting arrangements. In addition there was a reduction in support costs, which was achieved through natural wastage, worth around £35k per annum. The Council is also working more closely with neighbouring Watford Council on joint services, which is also helping reduce overheads corporately and also boost the Council's capacity.
- The Council needed to refurbish one of its swimming pools and the use of a trust brought financial benefits for the Council in terms of using it to manage and deliver the capital improvements on behalf of the Council. This helped ensure that the Council's de minimus VAT exemption position was not affected.

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- *In addition the Contract has delivered a commitment from the Council to invest circa £100k per annum in maintaining the leisure facilities as part of its contractual obligations, something which was not guaranteed to happen under the previous arrangements.*

Lessons learnt

- *Five years into the new contract arrangements are working well with no issues with the performance of Hertsmere and the Council enjoys a positive working relationship with the Trust.*
- *The outsourcing of the leisure services has to some degree protected the service from the current round of cuts facing local government, although the financial situation in Three Rivers is perhaps not as severe as that at other authorities. The overall service in which leisure sits has had to deliver savings, however these have been delivered from other parts of the service with no impact on the leisure management contract.*
- *The release of officer time from directly managing facilities and managing a number of separate contracts has allowed management to concentrate on more strategic matters encompassing more services and has boosted capacity. For example, it has allowed the Council to work closely with Watford Council to develop a new leisure facility to serve communities in both boroughs.*
- *Transparency works effectively with open book accounting and detailed management information made available to the Council. The Trust present an annual management plan to the Council setting out the plans for the coming year, together with a review as to how they performed against the previous year's plan.*
- *The Trust re-profiled their bid to more evenly spread the set up costs over the life of the contract. This helped smooth the contract payments payable by the Council over the term of the agreement.*
- *The Council work closely with the Trust to bring forward invest to save projects, such as investing in fitness facilities, with the revenue savings supporting the Council's investment costs.*

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7. Transfer to a New Trust

The creation of trusts by local authorities to manage leisure services first started in the late 90's and has grown rapidly since then to become as large as the private sector outsourcing market.

Local authorities have the powers to establish, transfer services to and fund new leisure trusts without having to go through any competitive tendering process.

Commissioning Process

The transfer process involves setting up a shadow trust which then negotiates with a local authority to take over the management and operation of leisure facilities and services. Trustees are recruited from the local community to sit on the Board of the Trust, usually a Company Limited by Guarantee (CLG) or an Industrial and Provident Society (IPS). The Trust applies for charitable status from the charities commission and once agreement has been reached with the local authority the formal transfer takes place, including a TUPE transfer of staff.

A summary of the commissioning process is set out below:



The commissioning process should take around 12 months from the decision to go down the new trust model to contract

signature, with a short period of mobilisation prior to transfer of the services. Around 3 months should be allowed for at the beginning of the process to allow time to confirm setting up a new trust is the best route, to prepare the contractual documentation and to appoint external advisors to support the in house team.

Ownership of the assets transferred usually remains with the local authority, which grants a long term lease to a trust (typically 25 years) together with a rolling grant funding agreement, usually lasting 3 - 5 years.

NNDR usually represents the main source of savings with some additional VAT savings.

Set up costs are much higher than for outsourcing and are estimated at £100k - £150k, excluding internal costs and officer time which are likely to be significant as the process can be much more time consuming than outsourcing. The cost can be higher if the authority has to recruit staff to work for the shadow trust during negotiations.

The set up and transfer process can take up to 12 months to complete.

Indicative Savings

The set up costs and loss of economies of scale reduces the potential savings that transferring services to a new trust can deliver.

How support costs are dealt with can also impact on the potential savings. If a trust buys back support services from an authority it will significantly reduce the level of potential savings. Even if a trust creates its own support services this will lack economies of scale and will still leave an authority having to realise savings in its support costs.

The potential savings are estimated at 15% - 20% based on NNDR and VAT savings, with the potential for higher savings if a trust can grow the business and it is also able to purchase its own support services and the Council can then realise these savings.

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Pros	Cons
NNDR and VAT savings	Can be expensive to set up
Focus on sport and leisure	Lacks economies of scale
Can allow management to grow business outside of local authority control	Need to build management support and systems
Authority can retain a degree of influence and indirect control	Loss of direct control and influence over services to an independent body
Provides flexibility in terms of grant funding	Lack of ring fencing means trust reliant on uncertain grant funding
Promotes community engagement and involvement	Can be difficult finding trustees with right skills and experience
Can allow savings to be reinvested in services and facilities	Can be hard to lever in investment in early years
Improves an Authority's partial VAT exemption position	Potential for reduced links with other Council services, such as education
May open up further sources of investment	Reliant on existing management
Potential for more staff involvement and engagement if IPS	Authority retains lifecycle risk and ultimately operating risk if trust fails
Can boost future not for profit capacity in an area if other leisure services run in-house	Too much control by an Authority can limit ability of trust to operate effectively

Transferring Services to Other Forms of Social Enterprise

In some areas variants to setting up and transferring services to a traditional trust have emerged. This variant involves local communities setting up social enterprises independently of local authorities in order to protect facilities with uncertain futures or threatened with closure. These community enterprises apply to take over the running of such facilities, usually single site venues such as swimming pools.

Local authorities would normally transfer the facilities to the community either through a long peppercorn lease or sale of the freehold for a nominal amount. The authority may also provide some capital funds and some short term revenue

funding to enable the new community enterprise to carry out any essential repairs and maintenance and cover its costs in the first few years of operations.

The model is best suited to single site facilities that have little commercial attraction to an external operator but enjoy strong community support to remain open. It is not really suitable for large portfolios of facilities as these community groups lack the resources and capacity to manage more than one facility.

The community enterprise model is likely to become more popular in the current financial climate as local authorities seek to dispose of underperforming facilities they can no longer afford to operate or maintain.

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There are a growing number of community run swimming pools across the country and anecdotal evidence suggests that they have been relatively successful in protecting popular community assets. Many of them have managed to raise funding locally and secure external grants to carry out repairs, maintenance and improvements.

Recent Government announcements and legislative proposals may provide more opportunities for community social enterprises to take over the management and operation of community leisure facilities.

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Case Study: Luton Council - Establishing a Leisure Trust

Luton Council transferred the management and operation of its leisure centres and sports development services to a newly established trust Active Luton in 2005 and shortly after also transferred its cultural services to another separate trust.

Rationale

- *A Best Value review in 2004 identified the opportunities to secure efficiency savings and service improvements by transferring the leisure services to a trust. Efficiency savings were a key driver for establishing Active Luton. Transferring the services to the Trust allowed the Council to realise savings on NNDR and also profits on its share of the ownership of Luton Airport in a tax efficient manner. It was also felt that a trust would be better able to access external grants and funds and this would enable improvements in the services at a time when Council funding would be restricted.*
- *Ownership and influence was also a key consideration for members which also favoured the creation of an in house trust as opposed to outsourcing to a private sector hybrid or existing leisure trust.*
- *Although there were potential further savings from having one integrated leisure and cultural trust, it was felt that two separate leisure and cultural trusts would be better able to expand their services beyond Luton.*

Implementation

- *Active Luton was set up in 2005 as a Company Limited by Guarantee with a trading subsidiary that donates all its profits to the Trust.*
- *It took around 12 months to establish the Trust and transfer services to it and the total costs of the process was around £200k. This covered the requirement to fund independent external advisors for the new Trust and to support the Council with expert legal and commercial advice, including VAT. The input of the external consultants was felt to be critical in the successful set up of the Trust.*
- *A rolling five year funding agreement is in place which is now being renegotiated. The agreement allows for an increase in funding by RPI, net of an agreed efficiency target of 2.5%.*
- *There are 25 year leases for the main facilities with shorter leases and get out clauses in place for those facilities which are to be replaced or have with uncertain futures. The Council retains responsibility for major repairs and maintenance.*
- *The Trust buys in many support services from the Council, such as human resources, ICT and property.*
- *The Council has to approve any bids by the Trust to deliver additional services over a certain value. This requirement is to protect the services to Luton residents as a result of the Trust over extending itself delivering contracts elsewhere.*

Savings and Other Benefits

- *Overall there has been a net financial benefit to the Council of transferring the services to the Trust. There were NNDR savings of circa £250k per annum, although most of these were offset by the impact of VAT exemption, which meant a significant proportion of VAT input costs were irrecoverable, as well as other additional running costs. The financial benefits are expected to increase as the Council works with the Trust to deliver further efficiency savings. Also there was a significant financial benefit gained through the Airport company gift aiding part of the Council's share of its profits to the Trust.*
- *Active Luton have increased usage of the centres by 40%, significantly increased turnover and secured considerable amounts of external funding from bodies such as*

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Sport England. This has allowed the proportion of Council funding to fall as a % of overall turnover.

Lessons Learnt

- *Transferring the services to a trust has appeared to protect the service from budget cuts compared to other service areas, although this may not be sustainable in the longer term. User charges have been increased by around 10% to help cut the net costs of the service and some sites are also having their opening hours reduced. However it is very difficult to reduce the costs of services significantly without facility closures.*
- *Leisure is a low priority service for investment and the Trust has been able to secure funding that would not have been forthcoming if the service had remained in house. Luton's social demographic profile means that it scores highly on deprivation indices in the East and is often seen as a priority for investment by external agencies. The Trust has been very successful in submitting bids to secure funding based on addressing the affects of deprivation.*
- *The costs of running a new organisation will absorb some of the efficiency savings generated from NNDR. Support costs are an issue and can only be dealt with effectively on a wider corporate basis.*
- *The Council has managed to exert a degree of control of the activities of the Trust by controlling pricing of some key activities, such as swimming and the cost and discounts available through the Go4Less concessionary card. The Council also has to sign off the Trust's annual service delivery and improvement plan.*
- *As an independent body the Trust can influence some control over its operations and has been able to buy in specialist communications support. There are concerns that as in-house support services are cut then it will impact on the services that that the Trust needs in order to operate effectively.*
- *The new Trust needed to have key senior staff and new systems and processes in place well before the date of service transfer, which increased the set up costs.*
- *Trust and communications between the Council and the Active Luton critical to the success of the relationship. Strong political support for the transfer was critical. As was internal legal support as negotiations between Council and the Trusts legal advisors was often difficult.*
- *Active Luton is seen as a success and largely left to get on with delivering the services with very little monitoring. It has been effective in working with target groups and partner organisations such as health and children's services. The quality of the Trust's senior management team is seen as a key factor in its success.*

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8. Establish a Public Private Partnership

The use of PPPs as an alternative management delivery model is a relatively recent development, linking an outsourced leisure management contract with a design and build contract which may or may not involve private sector investment. PPPs bring the benefits of external specialist management, together with private sector expertise in delivering design and build schemes on time and to budget.

The most common form of PPP is the Private Finance Initiative (PFI) whereby a private sector consortium led by a leisure operator designs, builds, finances and operates (DBFO) new or refurbished leisure facilities for a local authority in return for a long term management fee and unitary charge. The costs are subsidised by Government through the provision of PFI Credits and has been used by Breckland and Uttlesford District Councils in the East to develop new and refurbished leisure centres.

Without the Government subsidy PFI is an expensive form of procuring leisure services, due to the initial set up costs and the costs of financing large amounts of private sector investment. Nonetheless the model was deemed to be a success in that it delivered facilities at lower cost than traditional construction with fewer delays and disputes.

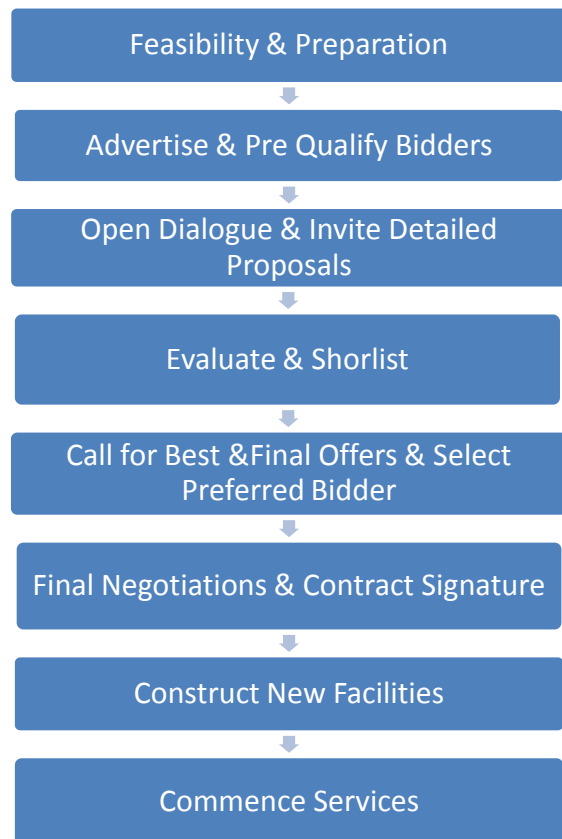
Some authorities, such as Basildon Council, have adapted PFI into a Design, Build, Operate and Maintain (DBOM) model in which a private sector partner delivers these services but with the authority providing the financing. This approach delivers the benefits of private sector expertise in designing, construction and operating facilities with much cheaper public sector finance.

The PPP model is best suited to situations where there is a significant need for investment, such as the construction of a new leisure centre, and requires a long term contract of at least 15 – 25 years over which to spread the financing costs.

Commissioning Process

The procurement of a PPP is carried out using the EU Competitive Dialogue process, which is a prescribed process that aims to maximise competitive tension during bidding.

A summary of the commissioning process is set out below, which is similar to the process for outsourcing:



The commissioning process will take much longer than outsourcing, at least 18 months from advertising the tender to contract signature, with a construction and mobilisation period of around 18 months prior to services commencing. Around 6 months should be allowed for at the beginning of the process to allow a business case to be prepared and to confirm a PPP is the best solution, to appoint external advisors to support the in house team and to prepare the tender and contractual documentation.

The set up costs of a PPP can be very high, estimated at £300k - £500k and

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likely to rise if a project hits affordability problems and is delayed as many PPPs have been in the past. These figures exclude significant in house costs and officer time during procurement.

Indicative savings

A PPP project will rarely deliver cashable savings for an Authority but they do deliver efficiency savings which can be used to support investment. The model tends to work by allowing revenue currently spent subsidising older inefficient facilities to be

recycled to support the financing costs of new leisure facilities. The model allows local authorities to benefit from new leisure facilities at no extra cost to the taxpayer.

Where a PPP project is linked to the outsourcing of a leisure management contract it is more likely to deliver direct financial savings, provided efficiencies in support costs can be realised.

Pros	Cons
Effective transfer of design and build risk	Expensive and time consuming to procure and set up
Transfers operating, maintenance and lifecycle risk	Ties Authority into long term contract which may be inflexible
Protects resources by ring fencing spending through a Contract	Authority usually retains some financial risks through income and cost benchmarking
A potential source of significant external investment	Expensive if private sector finance is part of the package
Enables invest to save projects	Complex procurement and contracting arrangements
Encourages innovation	Additional contract monitoring costs
In most cases NNDR and support cost savings	Any TUPE transfers can be expensive

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Case Study: Basildon Council - Establishing a PPP

Basildon has a 25 year PPP with Morgan Sindall Investments Limited and SLM involving the design, build, operation and maintenance of the new £35m Basildon Sports Village and the management of the three existing leisure facilities. The project is funded through a mixture of external grants and Council investment from the sale of surplus sites for development. The Council has managed to protect and enhance its leisure services and is expected to deliver savings of around £300k per annum for the Authority through the PPP.

Rationale

- The key driver for the development of the scheme was a desire to protect and improve leisure services in Basildon. The Council had considered outsourcing and creating a Trust to manage the services at various stages in the past but had decided against them for various reasons. The PPP approach was pursued as it provided an opportunity to rationalise and improve leisure provision at no extra cost to the Council. The Council also felt it would be more cost effective and less risk to integrate the design, construction, operation and maintenance of such a large project rather than commission individual packages of works and services.*
- For the same level of funding that the Council is currently spending on leisure, it will benefit from a brand new £35m leisure centre and the management of its remaining existing leisure centres for the next 25 years. The savings will come from a reduction in internal support costs together with savings accruing from the Council no longer having to fund lifecycle costs or repairs and maintenance.*

Implementation

- The project took 22 months to procure from the issue of the OJEU to financial close, a delay of around 4 months on the original timeframe. This is much longer than a traditional leisure management outsourcing, but in line with the time taken to deliver leisure PPPs elsewhere in the UK. The longer procurement period is partly due to the complexity of negotiating an integrated DBOM contract under the Competitive Dialogue. In addition, like many large recent projects the scheme experienced affordability problems due to the credit crunch, which meant the having to review the sale and disposal of surplus sites for development.*
- The construction period for the new facilities is 18 months and the facilities are due to open in April 2011 on time and on budget. The Council felt that despite the long procurement the time taken from inception to opening of the new facilities would be quicker through the PPP approach than delivering each element of the works and services separately.*
- The costs of procuring the PPP were significant, estimated at almost £1m. Again the costs are far higher than a traditional leisure management outsourcing and reflective of the need to bring in external legal, financial and technical advice to help the Council deal with the complexity of the procurement.*

Savings

- The overall package is expected to deliver a net saving to the authority of around £300k per annum, a saving of circa 20% on the costs of the services being run in house. The savings are expected to be realised through efficiency savings in support services, lifecycle works and repairs and maintenance which will be provided directly by SLM through the contract.*
- In terms of the three existing centres there will be limited savings on running the leisure centres through SLM and their community trust as the current in house operation is quite lean. Indeed SLM will actually be increasing staffing levels in some areas. The savings*

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on NNDR and VAT that the operator can deliver are largely offset by the operator's management fee and costs.

Other Benefits

- *The Councils feel that the services will be improved through partnering with a larger specialist leisure management operator. The current levels of services can be enhanced through access to specialist support in areas such as programming, branding and communications.*
- *The PPP model ensures that the full lifecycle costs of maintaining the new leisure centre is transferred over to the PPP partner over the 25 year contract. The costs for this are contained within the management fee and this represents a good deal for the Council as they would struggle to ensure that lifecycle investment was properly funded if it retained the responsibility.*

Lessons Learnt

- *The Council established a dedicated project team with in house financial, legal and technical support. The knowledge and experience has boosted the capacity and capability to manage and deliver large and complex projects.*
- *The resources required to deliver a PPP should not be underestimated and it was a significant financial and resource commitment for the Authority, both in terms of in house resources and external advisers.*
- *The procurement and set up costs are significant and without external support it would have been very difficult for the Council to find the necessary resources.*
- *The scheme relied on funding from a number of sources without which it would not have progressed in its current form. However the Council would still have pursued a smaller, less ambitious scheme.*
- *Unless a Council is willing and able to realise the savings in support costs which can arise through outsourcing then it can be difficult to generate significant financial savings, especially where the existing service is relatively efficient.*
- *With a long term contract it is important to retain a degree of flexibility to allow variations and changes in the scope of the services. Under the Contract the Council can remove any of the existing facilities from the agreement without any financial penalties. This will enable the Council to rationalise and replace the existing facilities as they reach the end of their economic life.*

The Contract allows for the PPP partners to bring forward service improvement and facility development proposals over the life of the agreement. This encourages innovation from the partners and allows the Council to benefit from new ideas and investment.

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9. Delivering Leisure Services through Schools

Many local authorities have worked closely with their local schools over the last twenty years to provide community leisure provision on school sites. Dual use school sports facilities remain a popular form of community leisure provision and have enjoyed significant external grant support from bodies such as Sport England.

The model involves unitary and district councils providing capital funding and revenue support, often through external grants, to build and operate leisure facilities on school sites owned by Local Education Authorities. School governing bodies are responsible for managing and operating the facilities, although in some of the bigger dual use facilities they are run directly by leisure DSOs or via external management.

Revenue funding allows schools to employ specialist sport and leisure staff, such as duty managers and coaches. External revenue funding is often time limited with many grants lasting for only three years, and schools are often expected to make the facilities pay for themselves once this funding expires. This can lead to a reduction in the number of specialist staff and cuts in other budgets, such as for repairs and maintenance.

Schools cannot directly subsidise community sports provision from within their ring fenced education budgets, although they do make a contribution to the schools share of operating the leisure facilities. The community element has to cover its costs from user fees and charges and any subsidy from the local authority.

The schools model of management and delivery is only suitable for leisure facilities that are located on or adjacent to school sites or where there is potential to extend community sports provision on school sites. It does provide an opportunity for local authorities to realise efficiency savings by relocating existing community provision onto school sites and closing and disposing of underperforming facilities. This approach may generate

significant revenue savings and capital receipts which can be used to support investment in new and extended facilities on school sites.

Commissioning Process

A summary of the commissioning process is set out below, which can vary depending on whether any investment is required in the leisure facilities on school sites:



The commissioning process should take around 9 months from deciding to pursue this option to signing a dual use agreement, with a short period of mobilisation prior to transfer of the services. If any investment is being made in new or improved facilities this can add up to 18 months to the process to allow for construction. Around 3-6 months should be allowed for at the beginning of the process to prepare an outline business case and to confirm whether delivering leisure services through schools is the best solution.

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Indicative savings

Those Authorities that have invested in dual use provision over many years are able to provide community leisure services at a fraction of the cost of comparable authorities. The potential savings for authorities seeking to provide leisure services will be very much dependant on the nature of current provision and the need for investment. There is likely to be a need to invest in new facilities on school sites which will absorb much of the savings from rationalising older, underperforming leisure centres.

Operational savings of at least 25% should be possible although much of these savings might be used to finance the upfront investment costs. In most instances the rationalisation of facilities would release valuable development sites and generate capital receipts to fund new investment, thereby allowing all the operational savings to be realised.

It is important to ensure that any savings projections take account of the need to set aside lifecycle funds to invest in the long term upkeep of dual use facilities.

Pros	Cons
Can be a very efficient model of externally managed provision	Uncertainty over long term sustainability of model in terms of funding
Share costs of provision with schools	Lack of clarity in responsibilities and obligations between partners
Promotes local provision within communities	Potential for disjointed and inefficient management
Low support costs and overheads	Lack of economies of scale
Can allows for rationalisation and self financing investment in new leisure facilities	Only suitable for facilities on or adjacent to school sites

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Case Study: South Cambridgeshire - Delivering Leisure Services through Schools

South Cambridgeshire does not own or operate any leisure facilities. Instead the Council has funded village colleges in each of its communities to develop and operate community leisure facilities through long term dual use agreements.

Rationale

- *Instead of owning or operating leisure facilities the Council's preferred model is to work with other partners to enable investment in leisure and to deliver services through external partners. Focusing leisure provision on school sites and enabling the village colleges to operate the centres is seen as the most cost effective form of provision.*

Implementation

- *There are ten village colleges serving South Cambridgeshire and over the last two decades the Council has worked with the colleges and Cambridgeshire County Council to develop sport and leisure facilities to serve both the schools and local communities.*
- *The Council has made significant capital and revenue investment to develop and support dual use leisure provision as part of its sports strategy.*
- *Long term dual use agreements were entered into with each village college and the County Council. The Council also provided short term revenue support to each facility. As the strategy has been implemented the revenue support agreements have expired and the Council no longer provides ongoing funding to the Centres.*
- *The Centres have to operate within the funding they generate from admissions and user charges and any financial support they receive from the village colleges for providing access for students, together with any specific revenue grants they secure. Each centre is responsible for setting its prices and programming, and charges are comparable with surrounding public leisure facilities.*
- *Different models are in place to share the running costs of the Centres between the community and schools. Some centres pay an annual contribution to its village college to cover its share of utilities, insurances and other premises costs. Other centres have to cover all their costs and receive financial support from the village colleges for their share of the running costs.*
- *The Centres are responsible for their own staffing arrangements and staff are employed on college terms and conditions.*

Savings and Other Benefits

- *The delivery of leisure through schools has been very efficient and it has allowed the Council to deliver services with minimal revenue support. At the current time the Council does not allocate any revenue support to the leisure centres and all its funding is now directed towards sport development and specific projects, which are often set up in partnership with the leisure centres to help generate more income..*
- *Based on conservative estimates and comparisons with neighbouring authorities, the indicative savings for the Council of delivering community leisure provision through schools as opposed to directly is likely to be in excess of £600k per annum, plus significant savings in support costs. This represents a significant financial saving for the Council.*

Lessons Learnt

- *Dual use leisure provision is extremely efficient as it allows the centres to be operated as part of the existing village colleges and their support structures. The Council has not had to invest in back office services to support the centres.*

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- *The lack of revenue funding from the Council to support the centres means that staff costs are kept to a minimum and in some instances staffing levels may be too low.*
- *Although the centres collaborate on an ad hoc basis there is a need for some co-ordinated management of the leisure services provided by the colleges. There is limited monitoring undertaken of the dual use agreements and each centre operates as a separate entity, largely dependent on the quality of the management locally and the support of the village college. Continuity of staff can be an issue and there are no economies of scale, for example in purchasing, or investment in district wide branding.*
- *The Council are considering other models of provision in the new growth areas of the District, as new school provision is lagging behind and limiting opportunities to invest in leisure facilities in schools.*
- *Spending on repairs and maintenance at the centres is funded by the village colleges. There is no long term investment strategy for the facilities and over time they will require life cycle investment. It is unclear where this investment will come from or whose responsibility it is to reinvest in community leisure provision. Community use of facilities causes considerable wear and tear yet the colleges cannot subsidise community usage of the sports centres from their budgets, and none of the centres generate sufficient surpluses to build up sinking funds.*
- *With some schools becoming academies and the need to ensure long term community use of facilities, the Council is in the process of reviewing the current dual use arrangements.*

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10. Decision Making Tool

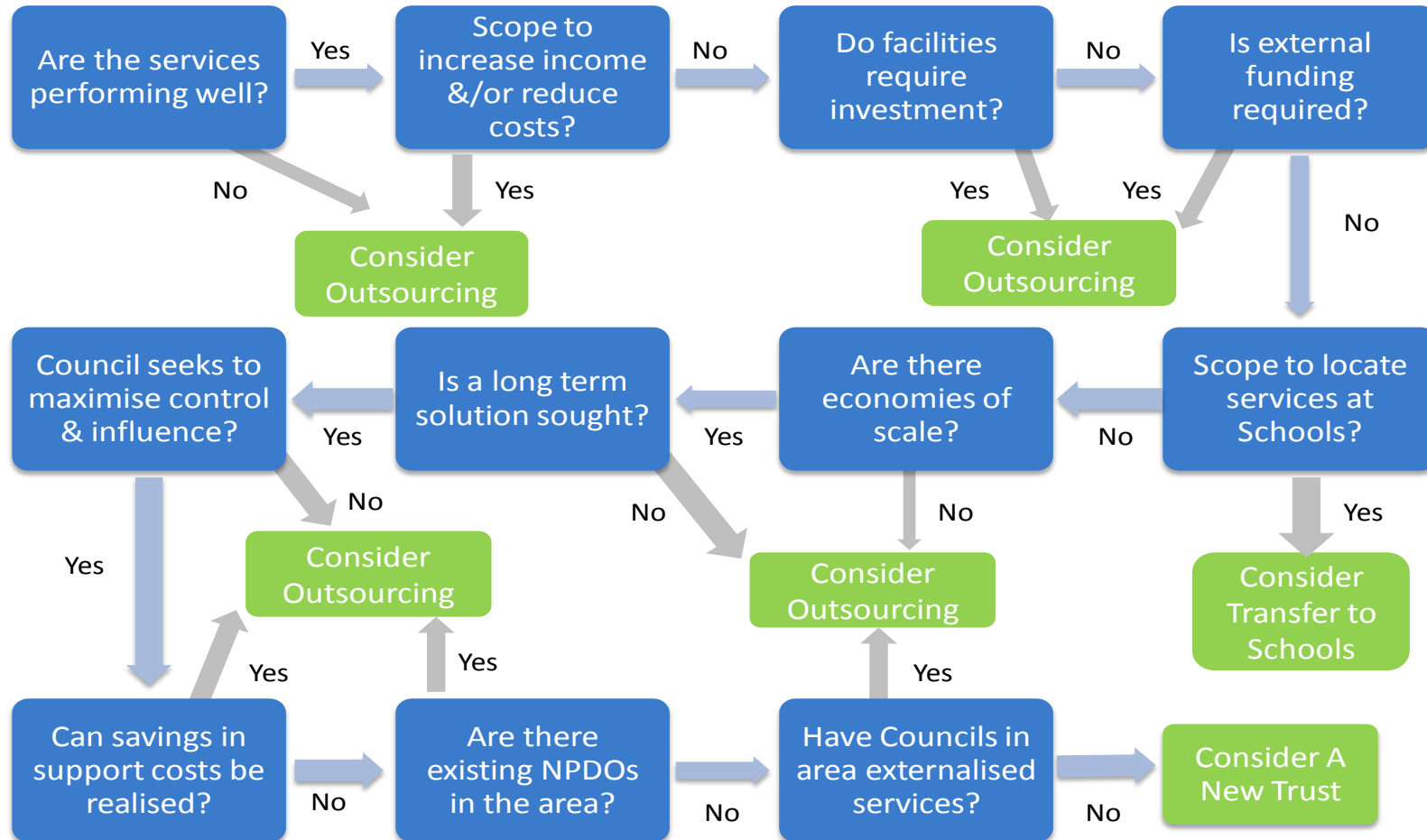
A decision making tool has been developed to enable local authorities to easily carry out a high level appraisal of which model is likely to be the most appropriate form of externalisation.

The tool asks a series of questions which based on the answers given provides an indication of which model is best suited to the individual circumstances facing a local authority. The questions covers the state of the existing services and facilities, the scope for improvement, investment requirements, support costs, an authority's perspective on control and influence, and the degree to which neighbouring authorities have externalised their leisure services.

Given there is no clear evidence that any one single management model offers more value for money or delivers better services than other alternatives, the questions focus more on the potential to deliver financial savings. The evidence so far collated suggests that outsourcing to an existing leisure operator (be that private or not for profit) is likely to deliver more in the way of efficiency savings than alternative models. However there are local factors which may make other models more appropriate.

The decision making tool is summarised below with the detailed questions and advice on how to interpret the answers set out in more detail on page 33.

Externalising Leisure Services Decision Making Tool



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Decision Making Tool: Questions

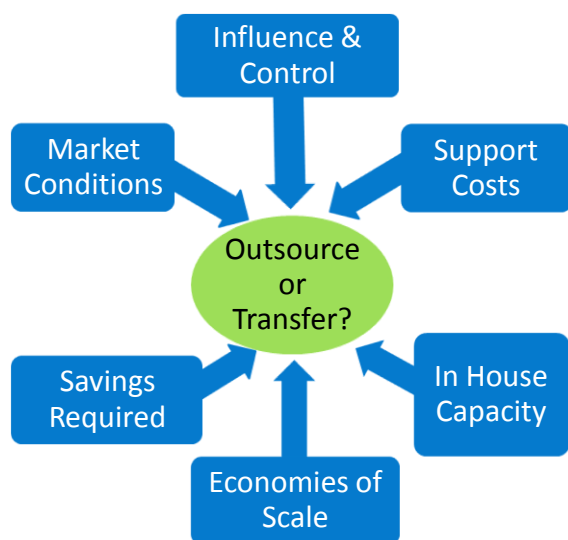
Questions	Answer - Yes	Answer - No
Are the services considered to be performing well compared to benchmarks?	Indicates that the service could operate as a standalone entity and there would be interest from potential external operators.	Indicates issues with the quality of the management and/or the facilities and which favours outsourcing
Is there scope to increase income and/or reduce operating costs	Indicative of a need for external management support which favours outsourcing	Reduces the scope for financial savings from externalisation
Are the facilities impacting on the quality of the service and requiring investment in the short term?	Financial savings will need to be maximised to support the costs of any investment which favours outsourcing	Not having to recycle resources into investment in the short term will help deliver more financial savings
Will external funding be needed to meet any investment need?	Existing operators better able to access finance than any new entity, at least in the short term which favours outsourcing	It is less expensive to fund investment through Council resources financed through revenue savings
Are there economies of scale in the current service?	Makes establishing a trust more feasible and financially viable	Only larger external operators offer economies of scale which favours outsourcing , may be scope to transfer small facilities to community enterprises
Is the Council seeking a long term management solution?	Externalisation offers a longer term solution although setting up a trust is reliant on short term grant funding	A short term external contract offers the most flexibility and favours outsourcing
Can Council realise potential savings in support costs?	A larger more efficient leisure operator can maximise potential savings which favours outsourcing	External provider will need to buy back in-house support services but less efficient which favours a new trust
Is there an existing trust successfully operating in the area	Could enable existing trust to submit efficient bid which favours outsourcing	Favours outsourcing to a private sector operator or setting up new trust to build capacity
Is there scope to locate services on school sites?	Explore scope for investing in and transferring management to schools	Rules out management through schools
Have Councils in the area externalised services?	Favours outsourcing and using local providers rather than setting up new trust with limited opportunities to grow	Offers scope for joint commissioning and to develop a new trust
Does the Council want to maximise its influence and control?	Council can maximise influence and control through the funding agreement via a new trust	Favours outsourcing and relying on performance & outcome measures in a contract

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11. Summary

The guidance has set out the pros and cons of the alternatives to traditional in house leisure management and the context in which community leisure services operate. There is no single management model that has been shown to deliver demonstrably better services than other alternatives. However the evidence so far suggests that outsourcing to private sector or existing trusts is more efficient and likely to deliver more financial savings than other forms of externalisation.

The choice of which model of externalisation to pursue is largely dictated by a number of interrelated key factors. These factors are summarised in the diagram below:



Savings Required

The level of savings required is probably the most important factor influencing the choice of external management model. A requirement to maximise savings should steer an Authority towards outsourcing as this will allow a competitive market testing and should deliver more certainty and financial savings. A summary of the indicative savings each model might deliver is set out in the table on the next page. The figures indicate that outsourcing to either a private sector operator or an existing trust should deliver the most financial savings, largely due to the combined benefits of tax savings,

economies of scale, lower support costs and the use of competitive tendering.

Market conditions

The state of the local leisure management market should also have a bearing on the choice of management model. If most of the surrounding authorities have already externalised their services to either the private sector or trusts then there is scope to use this capacity to deliver savings for an Authority considering externalisation. Creating another new trust may lead to over capacity in the market and reduce the potential for economies of scale.

In areas where there is a limited market of external providers there is more opportunity to establish a new trust and for that entity to grow over time by bidding for other leisure management contracts in that area.

Influence and control

An Authority seeking to maximise its control and influence over how an externalised leisure operator manages and delivers services will favour the creation of a new trust. However the scale of influence and control is likely to have a significant bearing on the effectiveness of the trust and the savings it can deliver. It is likely to be more efficient if an Authority sought to influence and control services through outcome based contracting via an outsourcing.

Support costs

The willingness and ability to realise savings in support costs will have a significant bearing on the scale of savings possible through an externalisation. Support services represent a significant cost to leisure and if this cost can be saved through externalisation then this would favour outsourcing, as private and existing trusts have much lower support costs.

Capacity of in house team

The evidence of transferring services to a new trust suggests that where an in house service has been performing well and has strong management team it is more likely

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to be successful as a new independent entity. If there are concerns about the capacity of the in house team then it is better to outsource the service in order to bring in external management support and reduce the risks of the quality of services declining.

Economies of scale

Where an authority only has a relatively small number of facilities, in order to deliver economies of scale through

externalisation it should outsource the service to a larger existing leisure operator. The evidence suggests that this will be more efficient than setting up a new trust that lacks scale and capacity and would be reliant on growth externally.

Where there are smaller facilities which have little commercial potential but which enjoy strong local support, it may be worth considering transferring the management and operation of such facilities to community driven social enterprises.

Summary of Indicative Savings of Leisure Services Externalisation

Model	Indicative Savings	Implementation
Outsource to Private Sector	Minimum 20% - 30%, higher if savings in support costs realised	9 to 12 months to procure at cost of £30k- £45k
Outsource via PPP	Limited as savings used to fund investment, higher savings if linked to management of existing facilities and support costs reduced	18 to 22 months to procure plus construction at cost of £300k – £500k
Outsource to Existing Trust	Minimum 20% - 35%, higher if savings in support costs realised	9 to 12 months to procure at cost of £30k - £45k
Transfer to New Trust	Minimum 15% - 20% higher if support costs are not bought back from Authority	12 months to set up and transfer services at a cost of £100k - £150k
Provision through Schools	Minimum 20%, lower if savings used to fund investment, higher if linked to rationalisation and a reduction in support costs	9 months to transfer services, 27 months if new facilities included at a cost of up to £25k

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Appendix: Current Leisure Management Arrangements in the East of England

Bedfordshire	Model	Operator
Bedford Borough Council	In house	DSO
Central Bedfordshire Council	Private & Trust	Stevenage Leisure/Leisure Connection
Luton Borough Council	Trust	Active Luton
Cambridgeshire		
Cambridge City Council	Private	SLM
East Cambridgeshire District Council	Mixed	Trusts, Schools & Leisure Connection
Fenland District Council	In house	DSO
Huntingdonshire District Council	In house	DSO
Peterborough City Council	Trust	Vivacity
South Cambridgeshire District Council	Schools	Village Colleges
Essex		
Basildon District Council	PPP	SLM
Braintree District Council	Private	DC Leisure
Brentwood Borough Council	Trust	Brentwood Leisure Trust
Castle Point Borough Council	In house	DSO
Chelmsford Borough Council	In house	DSO
Colchester Borough Council	In house	DSO
Epping Forest District Council	Private	SLM
Harlow District Council	Trust	Harlow & District Sports Trust
Maldon District Council	Private	Leisure Connection
Rochford District Council	Private	Virgin Active
Southend on Sea Borough Council	Private	Parkwood Leisure
Tendring District Council	In house	DSO
Thurrock Council	Trust	Impulse Leisure
Uttlesford District Council	PPP	Leisure Connection

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Hertfordshire

Broxbourne Borough Council	In house	DSO
Dacorum Borough Council	Trust	Sportspace (Dacorum Sports Trust)
East Hertfordshire District Council	Private	SLM
Hertsmere Borough Council	Trust	Hertsmere Leisure
North Hertfordshire District Council	Trust	Stevenage Leisure
St Albans District Council	Private	Leisure Connection
Stevenage Borough Council	Trust	Stevenage Leisure
Three Rivers District Council	Trust	Hertsmere Leisure
Watford Borough Council	Private	SLM
Welwyn Hatfield District Council	Trust	Finesse Leisure

Norfolk

Breckland District Council	PPP	Parkwood Leisure
Broadland District Council	No provision	N/A
Great Yarmouth Borough Council	Trust	Great Yarmouth Sport & Leisure Trust
King's Lynn & West Norfolk Council	In house	DSO
North Norfolk District Council	Private	DC Leisure
Norwich City Council	Private	Leisure Connection
South Norfolk Council	In house	DSO

Suffolk

Babergh District Council	Trust	South Suffolk Leisure
Forest Heath District Council	Trust	Anglia Community Leisure
Ipswich Borough Council	In house	DSO
Mid Suffolk District Council	Private	SLM
St Edmundsbury Borough Council	Trust	Abbeycroft Leisure
Suffolk Coastal District Council	Private	DC Leisure
Waveney District Council	In house	DSO