

**REPORT FROM: DIRECTOR OF PLACE**

**TO: EXECUTIVE**

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## LEISURE MANAGEMENT OPTIONS

### PURPOSE OF REPORT

To report the findings (financial and non-financial) of the assessment of potential operational management options for PBC leisure facilities, which are currently managed by Pendle Leisure Trust (PLT), and to secure a decision from Executive on the way forward.

Based on the analysis findings the following recommendations are made:

**Recommendation 1 (R1)** If PBC's priority is to save money then moving to an in-house operational management model should not be considered.

**Recommendation 2 (R2)** If PBC's priority is to save money and maintain reduced operational risk then moving to a LATCo operational management model should not be considered.

**Recommendation 3 (R3)** If PBC's priority is to save money then procuring an outsourced operational management model should be considered.

**Recommendation 4 (R4)** PBC should carefully consider the non-financial benefits of the PLT model in making any decision about change.

**Recommendation 5 (R5)** Timescales for achieving any savings are recognised and taken into account in decision-making.

**Recommendation 6 (R6)** Further legal investigation should be undertaken in respect of the existing leases, to determine whether they can be changed/rescinded.

**Recommendation 7 (R7)** If PBC decides not to change its current operational delivery model, it is recommended that negotiation takes place with PLT over the increasing subsidy to determine the extent of service PBC wishes to deliver, and that this is then reflected in costs.

**Recommendation 8 (R8)** If PBC decides not to change its current operational delivery model, it is recommended that a suite of KPIs is developed against which performance can be measured and evaluated.

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## REASONS FOR RECOMMENDATIONS

Leisure and leisure facilities are a key issue for the Council, and leisure spend is a high proportion of the Council's stretched revenue position. Determining a clear way forward for leisure provision which is both financially and environmentally sustainable is a key issue for the authority.

Exploring alternative operational models to PLT enables the Council to understand whether other models are more cost-effective.

## BACKGROUND

1. PBC decided to explore the feasibility of bringing the operational management of its leisure facilities back in-house. Before making a decision on the way forward, the Council wishes to understand the financial and non-financial impact and implications of such a move. Strategic Leisure was appointed in July 2024 to undertake this assessment, with its report attached at Appendix 1.
2. The Council also wants to understand the implications and impact of establishing a Local Authority Trading Company (LATCo) to manage its leisure facilities, as well as the impact of outsourcing its leisure facility portfolio to a leisure operator.
3. PBC's leisure facilities (Pendle Leisure Centre, Pendle Wavelengths, West Craven Sports Centre, Seedhill Athletics Track and Fitness Centre, Marsden Park Golf Course, and Colne Municipal Hall) are currently managed by Pendle Leisure Trust. The Trust was established over 20 years ago to manage the leisure facilities and a range of physical activity, health and wellbeing services in the borough.
4. The Trust requires a net subsidy (circa £1.8 - £1.9 m per annum) from PBC to operate the leisure portfolio. The total PBC subsidy (including the management fee, energy support and R&M recharges) is £2.06m in 2024/25.
5. The scope of the project undertaken by Strategic Leisure therefore covered an assessment of the three alternative operational delivery models identified for further exploration:
  - In house management;
  - Establishing a new organisation: e.g., Local Authority Trading Company (LATCo); and
  - Outsourced management (via established leisure operator market).
6. The key factors affecting the financial benefits of each operational model are:
  1. **Outsourced** – benefits from NNDR savings; outsourcing has the greatest ability to 'spread' overheads across a number of contracts; this mainly relates to central functions such as HR, Marketing, Training etc;
  2. **LATCo** – benefits from NNDR savings but all overheads sit against one contract;
  3. **In-house** – does not benefit from NNDR savings; higher staff costs; less commercial;

4. **Outsourced Agency** - benefits from NNDR savings; has the greatest ability to 'spread' overheads across contracts; this mainly relates to central functions such as HR, Marketing, Training etc; designed to realise VAT benefits from new policy.
  
7. An outsourced leisure management contract is operated by a specialist leisure contractor. They manage the facilities, provide services, generate revenue, incur expenditure and the majority of operational risk is passed to them. The contract is awarded following a procurement process, during which the operator will submit a cost for operating the facilities. Sometimes an outsourced leisure contract requires a subsidy (generally if facilities are ageing or in poorer condition); there are also contracts returning a surplus to the local authority partner.
  
8. An outsourced agency contract works in exactly the same as an outsourced contract except for three main areas:
  - The operator acts as an agent of the local authority and is paid a management fee to collect income, pay and then reclaim expenditure
  - The agency model enables the operator to reclaim what was previously irrecoverable VAT on expenditure (this in effect becomes an income and therefore the overall service can be offered for less cost)
  - Under an agency model more of the operational risk is retained by the local authority, because the operator acts as an agent on their behalf
  
9. Typically, an outsourced agency model contract will be around 20% more cost-effective than an outsourced leisure contract. The first local authority in the UK to move to an agency model is the LB Hillingdon; the model went live in the summer of 2024. SLL is aware that other local authorities e.g. Cambridge City are in the process of moving to the agency model.
  
10. The conclusions of the financial analysis (using the current trust operation as the baseline) based on overall cost i.e. management fee, depreciation and central costs are:
  - **An in-house operation** is likely to be £285,994 more expensive i.e. a higher deficit than the current trust costs, resulting in an increase in subsidy from PBC. Based on the 2024/25 PLT budget this means the Council's subsidy would increase to £2,346,404 (this includes management fee, energy support and repair and maintenance recharges). The impact on the management fee, or council costs if in-house, would be an increase from £1,657,410 to £2,346,404 in Year One. The cost of an in-house operation would be likely to increase year on year by RPI.
  - **Setting up a LATCo** would be less than the current subsidy paid to PLT by £194,722; in other words, the cost to PBC Year One would reduce by this amount to £1,865,688 but there would be an initial cost to PBC of setting up a LATCo – circa £150k. The cost of a LATCo operation would be likely to increase year on year by RPI.
  - **Outsourcing the management of the facilities to a leisure operator** with an embedded charitable model and managing as an agency model would reduce the current subsidy by £318,660. So, outsourcing through an agency model would mean the Council's overall subsidy reduces to circa £1,741,750. Annual RPI increases would be included in the tender sum submitted, so the cost of an outsourced contract would be known for the contract term (minimum 10 years).
  - Managing the facilities through an outsourced leisure operator non-agency contract would reduce this saving by circa £75,000 (the calculated amount of irrecoverable VAT). An outsourced non-Agency model would still be the more cost-effective than the current PLT model, in-house model or a LATCo, with an overall subsidy of £1,816,750.

11. In net terms, the financial impacts are (i.e. excluding depreciation and central support costs):

- In-house – increase in costs to £2,325,184
- LATCo – reduction in costs to £1,844,468
- Outsourcing (agency) reduction in costs to £1,417,546

12. The above analysis tells us that:

- **In House**
  - There will be an increase in PBC subsidy of £285,944 if the operational management of PBC’s leisure facilities is brought in-house. This is largely a result of:
    - Loss of NNDR savings of 385,700
    - Increased employee costs of £110,664 (Local authority terms and conditions are higher than those of PLT)

**The cost to PBC of in-house operated leisure facilities will be higher than the existing PLT operation.**

- **LATCo**
  - There will be a £194,722 reduction in the existing PBC subsidy if the operational management of PBC’s leisure facilities is delivered through a LATCo. This is largely a result of:
    - An increase in income
    - Retention of NNDR

**The cost to PBC of LATCo operated leisure facilities will be lower than the existing PLT operation. It is, however, important to stress that to set up a LATCo will cost circa £150k; there could also be impact on central services if the LATCo source at least some of these externally.**

- **Outsourced Leisure Operator (Agency Model)**
  - There will be a £318,660 reduction in the PBC subsidy if the operational management of PBC’s leisure facilities is delivered through an outsourced leisure operator, using the Agency model. This is a result of:
    - An increase in income
    - Retention of NNDR
    - Reduced overheads

**The cost to PBC of outsourced operated leisure facilities will be lower than the existing PLT operation. It is, however, important to stress that to undertake an operator procurement will cost circa £100k; there could also be impact on central services if any existing resources deal with PLT support as 100% of their job role.**

13. The financial impact of each of the identified operational management models is summarised in Table 1:

Table 1 Summary of Financial Impact of each identified Operational Model

Baseline Comparator (PLT current position)	Financial Impact	In-House	LATCo	Outsourced Agency
Net deficit £1,903,840	Net saving/cost increase (this net figure excludes PBC subsidy, depreciation and central costs)	Cost increases by £285,994  Net deficit increases to £2,325,184	Cost reduces by £194,722.  Net deficit reduces to £1,844,468	Cost reduces by £318,660.  Net deficit reduces to £1,417,546

24/25 management £1,657,410	Budgeted fee	<b>Increased/Reduced PBC management fee</b>	Cost increases to £1,943,404	Decreases to £1,462,688	Decreases to £1,338,750
Overall £2,060,410	deficit	<b>Overall saving/cost increase i.e. including PBC subsidy, and depreciation central costs.</b>	Overall deficit increases to £2,396,844.	Overall deficit reduces to £1,916,128  This excludes the cost of setting up the LATCo, plus cost of any fitness equipment required.	Overall deficit reduces to £1,792,190  This excludes the cost of undertaking a procurement plus cost of any fitness equipment required.

14. It is also important to note that all options would take circa 12-14 months to set up, so savings would not be immediate.

15. The financial analysis also clearly highlights:

- PLT income is substantially less than expenditure - there are a few reasons for this, but the main one is the age and condition of the facilities, plus the actual facility mix, design and layout which limit the ability of any operator to drive revenue and cost more to operate than more modern buildings.
- The existing PLT staffing structure - staffing as an area of expenditure is approximately 90% of the income generated at each facility, which is very high.

16. Soft market testing (SMT) was undertaken with established leisure operators. The SMT highlights that there is more market interest now in operating an outsourced contract in Pendle borough than there was when a similar exercise was undertaken in 2019.

17. There is no interest from parish and town councils in operating PBC leisure facilities unless there is substantial investment in these. If PBC was to invest significantly the question has to be asked why they would do that and then asset transfer facilities to enable others to benefit from increased income etc.

18. Given PBC has decided to retain all its existing leisure centre sites there is a need to identify what the Council wants to achieve from these facilities and their operation. If PBC simply wants the most cost-effective operational model it should outsource. If PBC wants to continue to provide both community-based services and facilities it could outsource these and specify the services required, or it could retain the PLT model which already delivers significant Social Return on Investment (SROI) at £22.99 for every 1 invested in PLT.

19. PLT currently attracts large amounts of external funding which enables it to positively impact the community this includes grants received from Lancashire County Council, NHS Lancashire Care and Big Lottery. This has equated to £1,079,798 over the last five years. Some of these grants received would not be possible under a different operator model.

20. The situation with the existing PLT leases needs to be further explored as these may restrict what PBC is actually able to do, at least in the short-term. The existing leases have four years to run. If the Council wishes to explore the option of changing its operational management model, i.e. not continuing with PLT, it will need to take detailed legal advice over these leases. There is likely to be a cost to early termination of the funding agreement between PBC and PLT.

21. Other non-financial factors should also be considered, particularly risk and how this is apportioned and managed. PLT is an arm's-length company; the main risk PLT has with this model is the funding grant and how much this costs. All operational risk, except for maintenance sits with PLT. If the operational management of leisure facilities was to be brought in-house, or if a LATCo was established, all operational risk sits with the Council because the management service would either be part of PBC services (in-house) or be a wholly owned PBC company.

An outsourced operator model would remove the majority of risk for PBC because there is an agreed management fee over a 10-year contract (minimum term), which is set out in the submitted tender. Elements of risk which PBC would retain are maintenance because the existing facilities are ageing, and under an agency model, the fact that the operator is appointed as an agent to collect income. In practice the operator would continue to manage the facilities, drive throughput and income and incur expenditure, but their status would be agent, as opposed to operator.

22. The cost of setting up a new organisation, or undertaking procurement should also be taken into account, although the savings to be achieved with an outsourced contract over a 10-year contract term (likely in the region of £2.3m minimum) would more than offset those of a short-term procurement exercise.

23. Other costs to be considered in the event of PBC deciding the change its operational management model include any legal costs related to resolving the existing PLT leases, and those associated with the need to purchase new fitness equipment i.e. gym machines, depending on the agreement reached with PLT.

## IMPLICATIONS

**Policy:** Leisure provision, the well-being and connectedness of people and communities, and addressing climate change are all key policy areas for the Council.

**Financial:** The revenue implications of the range of possible future options are set out above.

**Legal:** There is a need to review the existing PLT leases to assess their impact on the feasibility of changing the existing operational management model.

**Risk Management:** Each operational management model has a different risk profile; it is important to understand PBC's appetite for risk in assessing alternative operational management options, especially where risk can result in additional cost.

**Health and Safety:** The current facilities are at an age where capital investment will be required on existing and/or potentially new stock to prevent failure.

**Sustainability:** Since two-thirds of the Council's carbon emissions come from the three leisure centres, there is clearly a need to consider their future.

**Community Safety:** Leisure provides an important role in reducing anti-social behaviour amongst young people.

**Equality and Diversity:** The agreed forward strategy will require a community impact analysis.

## APPENDICES

Strategic Leisure Ltd report: Assessment of Potential Management Options for Pendle Borough Council Leisure Facilities, September 2024.

## LIST OF BACKGROUND PAPERS

None.