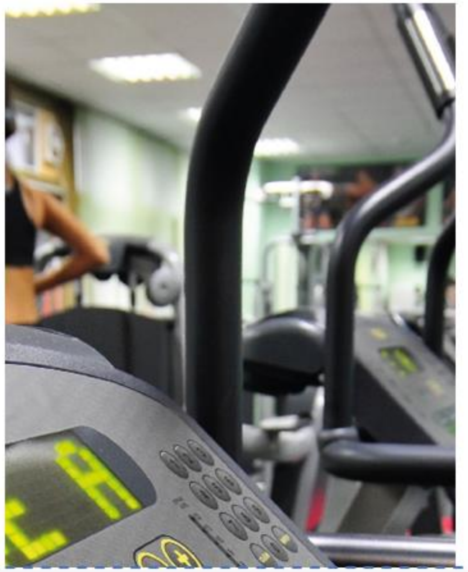

Pendle Borough Council

Assessment of Potential Management Options for Pendle Borough Council Leisure Facilities

A draft report by Strategic Leisure Limited

September 2024

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1.1. 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.

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 and the impact of outsourcing its leisure facility portfolio to a leisure operator.

1.3. 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 (PLT). 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.

1.4. The Trust requires a net subsidy (circa £1.8 - £1.9m 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.

1.5. The scope of this project therefore covers an assessment of the three alternative operational delivery models identified for further exploration by Pendle Borough Council:

- In house management;
- Establishing a new organisation: e.g., Local Authority Trading Company (LATCo); and
- Outsourced management (via established leisure operator market).

1.6. 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 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.

1.7. The financial analysis 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.

1.8. 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 fo 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.

1.9. **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

1.10. 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.

Table A 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 Budgeted management fee £1,657, 410	**Increased/Reduced PBC management fee**	Cost increases to £1,943,404	Decreases to £1,462,688	Decreases to £1,338,750
Overall deficit £2,060,410	**Overall saving/cost increase i.e. including PBC subsidy, depreciation and central costs.**	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.

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

1.12. If PBC decides to change its operational management model it should do this once. If PBC brought the services in-house and then decided to outsource, or set up a LATCo and then decided to outsource there would be a number of implications, including:

- Service disruption
- One or more changes in employee terms and conditions
- Increased cost if the service was brought in-house before implementing an alternative model
- Multiple changes in costs if one and then another model was to be implemented
- Timescales to implement each change

1.13. All the above would impact on the extent and timing of any savings realised.

1.14. 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 in 2019.

1.15. There is no interest from parish and town councils in operating PBC leisure facilities unless there is substantial investment in these. If PBC were 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.

1.16. Given PBC has decided to retain all its exiting 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 SROI and attracts large amounts of external funding.

1.17. Alternatively, prior to progressing any other operational delivery model, the Council could develop a specification setting out what it wants to achieve from its leisure facilities and how it would like these to be managed. It could then ask PLT to cost the delivery of the specified services. This would provide a framework for linking cost to service delivery and should provide the basis for negotiation over cost. It would also enable specific KPIs to be developed which would ensure that PBC service priorities can be measured and evaluated moving forward. If PBC decides to outsource the management of its leisure facilities, it will need a specification anyway, so this work would not be wasted.

1.18. Although it would take a few months to develop a specification and receive costs against this from PBC this approach would provide the opportunity for PBC to understand the costs of various elements of the service as delivered by PLT.

1.19. In relation to all operational delivery models other than PLT, 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. There is likely to be a cost to early termination of the funding agreement between PBC and PLT.

1.20. 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.

1.21. 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.

1.22. 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.

1.23. 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 PL. Alternatively, prior to progressing any other operational delivery model, the Council could develop a specification setting out what it wants to achieve from its leisure facilities and how it would like these to be managed. It could then ask PLT to cost the delivery of the specified services. This would provide a framework for linking cost to service delivery and should provide the basis for negotiation over cost. It would also enable specific KPIs to be developed which would ensure that PBC service priorities can be measured and evaluated moving forward. If PBC decides to outsource the management of its leisure facilities, it will need a specification anyway, so this work would not be wasted.

1.24. Although it would take a few months to develop a specification and receive costs against this from PBC this approach would provide the opportunity for PBC to understand the costs of various elements of the service as delivered by PLT.

Recommendations

1.28 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.

2. Introduction and Background Context

Introduction

2.1. Strategic Leisure Limited (SLL) was appointed in July 2024 by Pendle Borough Council (PBC) to undertake an assessment of potential management options for its leisure facilities, which are currently managed by Pendle Leisure Trust (PLT).

2.2. PBC has 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.

2.3. 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 and the impact of outsourcing its leisure facility portfolio to a leisure operator.

2.4. The assessment considers the financial and non-financial impact of the three alternative delivery models and using the current operation, Pendle Leisure Trust (PLT) as the baseline, provides a comparison of the four operational models.

Background Context

2.5. 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 (PLT). 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.

2.6. The Trust requires a subsidy (circa £1.2-1.6m per annum) from PBC to operate the leisure portfolio.

2.7. In July 2024 PBC Executive confirmed its decision to retain all three of its leisure centres, Pendle Leisure Centre, Pendle Wavelengths and West Craven Sports Centre.

Scope of Work and Our Approach

2.8. This facility options appraisal covers:

- Assessment of the feasibility of bringing the management of the above PBC facilities in-house
- Assessment of the feasibility of putting the management of the above PBC facilities into a LATCo (which would first need to be established)
- Assessment of the feasibility of outsourcing the management of the above PBC facilities

- Exploration of the potential for town and parish councils to take on the management of PBC leisure facilities (some/all)
- Soft market testing with leisure operators to identify potential market interest in an outsourced contract
- Development of a comparative assessment – financial and non-financial, of the identified alternative operational delivery models

2.9. To deliver the above, SLL has:

- Consulted with identified Parish and Town Councils to assess whether they would be interested in taking on the operational management of PBC's leisure facilities
- Assessed the impact and implications of bring the existing leisure management operation in-house - financial and non-financial
- Identified the advantages, disadvantages and risks of bringing the service in-house
- Developed a detailed financial model illustrating the changes between an in-house operation, and trust management
- Developed a financial comparison of an in-house operation and an outsourced leisure management option
- Undertaken a high-level soft market testing (SMT) exercise to understand the likely level of interest in managing PBC's leisure portfolio from the market
- Identified changes to the existing portfolio which would benefit an in-house /outsourced model
- Undertaken an assessment of the advantages and disadvantages of bringing leisure management back in-house and then outsourcing it
- Developed draft and final reports
- Prepared the Executive Summary to go to Executive Committee
- Put in place plans to attend Committee on 19th September 2024
- Held weekly 30-minute meetings with the Client to report on progress for the study duration

3. Future Operational Management Delivery Options

Introduction

3.1. Local authorities (LA's) have had the legal power to utilise different forms of operational service delivery for many years. This means there are a range of options in use across the United Kingdom. Although each available option has distinct advantages and disadvantages, it is critical to understand that each model will look different for every local authority. This is because each local authority has different facilities (number, age, facility mix), and a variety of funding agreements as a consequence of decisions made about their leisure portfolio over time.

3.2. In October 2019, Max Associates submitted a report titled 'Strategic Review of Leisure Centres Managed by Pendle Leisure Trust'. The advantages and disadvantages of each management option were reviewed in the context of Pendle Borough Council's facility portfolio and it was recommended that Pendle Borough Council retain the agreement with their existing trust. At that time only 3 of 12 potential operators expressed an interest in an outsourced contract through the soft market test.

3.3. Since 2019, there have been notable changes in the market due to the Covid19 pandemic and recently, a change to the VAT treatment of Local Authority Leisure Services (known as the 'Agency Model'). Prior to March 2023, local authorities managing facilities in-house were required to pay VAT on services such as Direct Debit gym memberships, however these areas have been reclassed as non-business supplies and consequently, local authorities pay no VAT on their income. Furthermore, local authorities can also reclaim all VAT incurred through similar related costs, which can result in significant savings. Whereas bringing facilities back in-house previously seemed like the most expensive option for local authorities, this change in the ability to reclaim previously irrecoverable VAT on expenditure, and the impact this has on reducing costs, means that this option should be re-considered.

3.4. Sport England's 2021 Leisure Service Delivery Guidance outlines the main operational management options for leisure facilities and services within, and available to, local authorities as:

- In house management;
- Outsourced management (via established leisure operator market);
- Establishing a new organisation: e.g., Local Authority Trading Company (LATC), Joint Venture Company (JVC), Community Interest Company (CIC), Non-Profit Distributing Organisation (NPDO), Company Limited by Guarantee (CLG);
- Asset transfer: Concession Contracts, Community Asset Transfers and Long Leases (with or without restrictions);
- Existing partnership with a local Leisure Trust; and
- Existing procured partnership with a Leisure Operator.

3.5. PBC's existing contract with PLT and the Councils immediate financial situation provides important context for the decisions the Council needs to make about the long-term operational management of its leisure facilities. In this context it is important to remember that the provision of leisure services is a discretionary element of local authority provision.

3.6. To realise any further savings a governance model either needs to reduce costs, generate additional income, reduce risk or improve efficiency or a combination of these. The only alternative models to PLT which deliver one or more of these are an outsourced or a LATCo option. These are the only options due to the following reasons:

- No potential partners indicated an interest in asset transferring facilities,
- Other local leisure trusts are in much the same position as PLT and would consider operating additional facilities as a risk, and;
- In-house operational management does not attract NNDR so will be less cost-effective
- A LATCo and outsourced option retain NNDR savings
- An outsourced option is able to apportion its overheads across a number of contracts which reduces the cost to an individual contract

3.7. The scope of this project therefore covers an assessment of the three alternative operational delivery models identified for further exploration by Pendle Borough Council:

- In house management;
- Establishing a new organisation: e.g., Local Authority Trading Company (LATCo); and
- Outsourced management (via established leisure operator market).

3.8. An overview of these three operational management delivery models is summarised below:

Analysis of identified operational management models

In-House

3.9. The key features of an in-house operational management option are:

- The Council takes direct responsibility for the management and operation of the facilities and services;
- Staff employed in the operation of the facilities are employed by the Council;
- The Council retains all income;
- The Council retains the third-party income risk:
- The Council is responsible for all expenditure;

- The service utilises the Council's central support services;
- The Council retains all operating risks;
- Maintenance, investment and security of all of the assets remains with the Council;
- There is budgetary uncertainty in terms of unforeseen overspends or underachievement of income;
- There are no set up costs although improvements in performance may require investment or cost cutting; and
- All expenditure is allocated to the in-house operation, which typically would operate only the facilities of one local authority.

3.10. In-house operation still has a significant market share of facility management in the UK, and some local authorities have chosen to return to this post Covid; however, central government grants continue to fall, and therefore provision of non-statutory services needs to be delivered in more cost-effective ways.

3.11. An in-house service does not benefit financially from NNDR (National Non-Domestic Rates) relief. This can add a significant on-going revenue cost to a local authority. However, since March 2023, in-house services are now exempt from VAT and local authorities delivering via an in-house management team will have overpaid previous output VAT.

3.12. As a consequence of this considering the various UK legislation and EU regulations and now this recent interpretation of the law, it may be concluded that:

1. Local authorities are precluded from being eligible bodies for the purposes of the VAT exemption for sports services by Note (3) of Group 10 of Schedule 9 to the VAT Act 1994.

2. However, they can gain VAT exemption for the provision of sports related services as a result of the Ealing Case but the recovery of VAT on the related expenditure is capped at the de- minimis threshold (5%) that applies to local authorities under Section 33 of the Act.

3. The Chelmsford case provides a potential opportunity for local authorities to provide sports related services 'in house' and treat the income as non-business under Section 41A of the Act which means that it falls outside the scope of VAT.

4. The primary benefit of such 'non-business' treatment of the income under Section 41A by a local authority, for sports related services is the ability to recover VAT on related expenditure but this is not subject to any limitations provided under Section 33 of the Act. [1]

[1](Source: Notes on VAT FMG March 2020

3.13. In terms of NNDR there have been recent changes in relation to local government finance which mean that the income from business rates more directly impacts on the Council's financial position. As a result of Central Government's changes to the funding process under the Local Retention of Business Rates Scheme, which came into effect in April 2013 (50% scheme), councils now retain 50% of all business rates income collected. Under the previous scheme, business rates income was paid into the government's central pool before being redistributed back out to local authorities based on a formula grant.

3.14. The previous benefit that councils realised is being eroded away due to the Local Retention Scheme. Those organisations that are able to obtain mandatory relief will continue to do so, however the cost of this relief will be borne in part by the local authority. The intended 2020 review of the Business Rate Review Scheme (BRSS) has been delayed; however, observers believe that the move to 75 or even 100% local rate retention is likely to be the outcome following ongoing pilots. This would in many ways negate the NNDR benefit available through the models discussed in this paper.

Summary

3.15. An in-house model is unable to benefit from NNDR savings in the same way as an outsourced service (all external operators now have a charitable model/element as part of their organisational structure). An in-house service will therefore be more expensive to operate, and it has less flexibility as it is tied to using central services. All risk sits with the Council under an in-house model. An in-house service is also less likely to be based on the achievement of KPI's and delivery of pre-determined outcomes. PBC bringing all services back in-house would result in significant costs initially and additional expenditure due to the current NNDR exemption that PLT receives, however due to new VAT exemptions, an in-house operation should be considered as an option for PBC.

Local Authority Trading (also known as Controlled) Company (LATCo)

3.16. A local authority must establish a company if they wish to carry on trading activities for profit. The powers to trade are included in the Local Government Act 2003 or under the general power of competence in the Localism Act 2011. Any profits made by a wholly, or partly owned company can be reinvested in other council services.

3.17. The company must pay VAT and corporation tax. This option represents a 'half-way' house in terms of an externalised service. The operating model attracts similar NNDR and VAT advantages to a charitable company but is not totally stand-alone as it is controlled by a local authority. This means that whilst some savings can be made, there is not the commensurate reduction in risk as is provided by outsourcing. All risk sits with the Council under a LATCo model, just as it does with an in-house model. All overhead costs are allocated to the facilities managed, usually under one contract.

Summary

3.18. **Establishing a LATCo could be an option for PBC, however, it is likely to require more resources and a longer timescale than outsourcing, and may cost more, given the legal impact of establishing a new entity.**

3.19. **It could also have an impact on PBC central support services, in the same way as outsourcing can; whilst LATCos tend to use many existing council central support services, it is also not uncommon for them to source some services locally e.g. HR, finance, IT etc.**

3.20. **Establishing a LATCo does not preclude outsourcing in the future. If PBC wishes to have more control of facilities moving forward, this should be considered.**

Outsourced Management

3.21. Under Section 135 of the Local Government Act 1972 local authorities have the power to 'outsource' provision of services to private or third sector organisations. The introduction of CCT (Local Government Act 1988) and Best Value (the Local Government Act 1999) modified this. Local authorities may decide to outsource either with another local authority or on their own but must ensure that that quality and value for money are delivered.

3.22. There is likely to be a transfer of local authority staff and the provisions of the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) as amended by the "Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014. In terms of pensions, in 2013 the government published a new Fair Deal for Pensions document identifying the requirements for those staff transferring from local and central government to outsourced employers.

3.23. The main options in terms of outsourcing include:

Private Sector Management

3.24. Following the introduction of Compulsory Competitive Tendering (CCT) to sport and recreational services in 1989, a number of companies were set up to respond to the opportunity of operating and managing public leisure facilities. There are a number of private companies that have emerged (some original, some created through mergers/buyouts) to operate local authorities' leisure, arts, and library facilities under contract. It is important to highlight that there are very few contracts combining leisure, arts and libraries; contracts tend to be operational management of sports facilities, possibly with sport/health development included, libraries on their own, arts (e.g., large-scale theatres\ entertainments venues) on their own, or a combination of cultural services (arts, heritage and libraries).

3.25. The key characteristics of private contractor management are as follows:

- Staff transfer under TUPE (where applicable);
- The Contract is awarded after a formal procurement process;
- The Council is the "client" and would manage operations under a contract agreed by both parties which would include a specification and performance measurement system and leases/licences;
- There would be key heads of terms including a fixed contract term (typically ten to fifteen years although there are increasingly examples of longer terms e.g., requirement for capital investment will require a minimum of fifteen years); and
- The contractor normally retains all income and is responsible for most if not all of the costs. Increasingly, local authorities are requiring a nil-cost contract (i.e., no management fee) and where possible, a surplus/profit share arrangement with a private contractor, reflecting the achievement of financial and non-financial targets/achievements. However this is highly unlikely for PBC with the current leisure portfolio.

3.26. Outsourcing does have an impact on any central services roles which are 100% allocated to leisure, in that once the services are outsourced there may no longer be a need for such resources. In the case of PBC this is unlikely to be the case because the service is already operated by a Trust which has its own central services and simply buys back from PBC those it needs.

3.27. There are two options available when considering Outsourced Leisure Management, the traditional model, and the Agency Model, briefly detailed below:

3.28. In the traditional model, external operators are contracted by local authorities to manage leisure facilities. The operator assumes full responsibility for operational management, including staffing, maintenance, and programming. They are appointed against a specification which sets out what a local authority wants to achieve from its leisure facilities, and how it wants an operator to manage and look after its assets.

3.29. A traditional 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.

3.30. 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

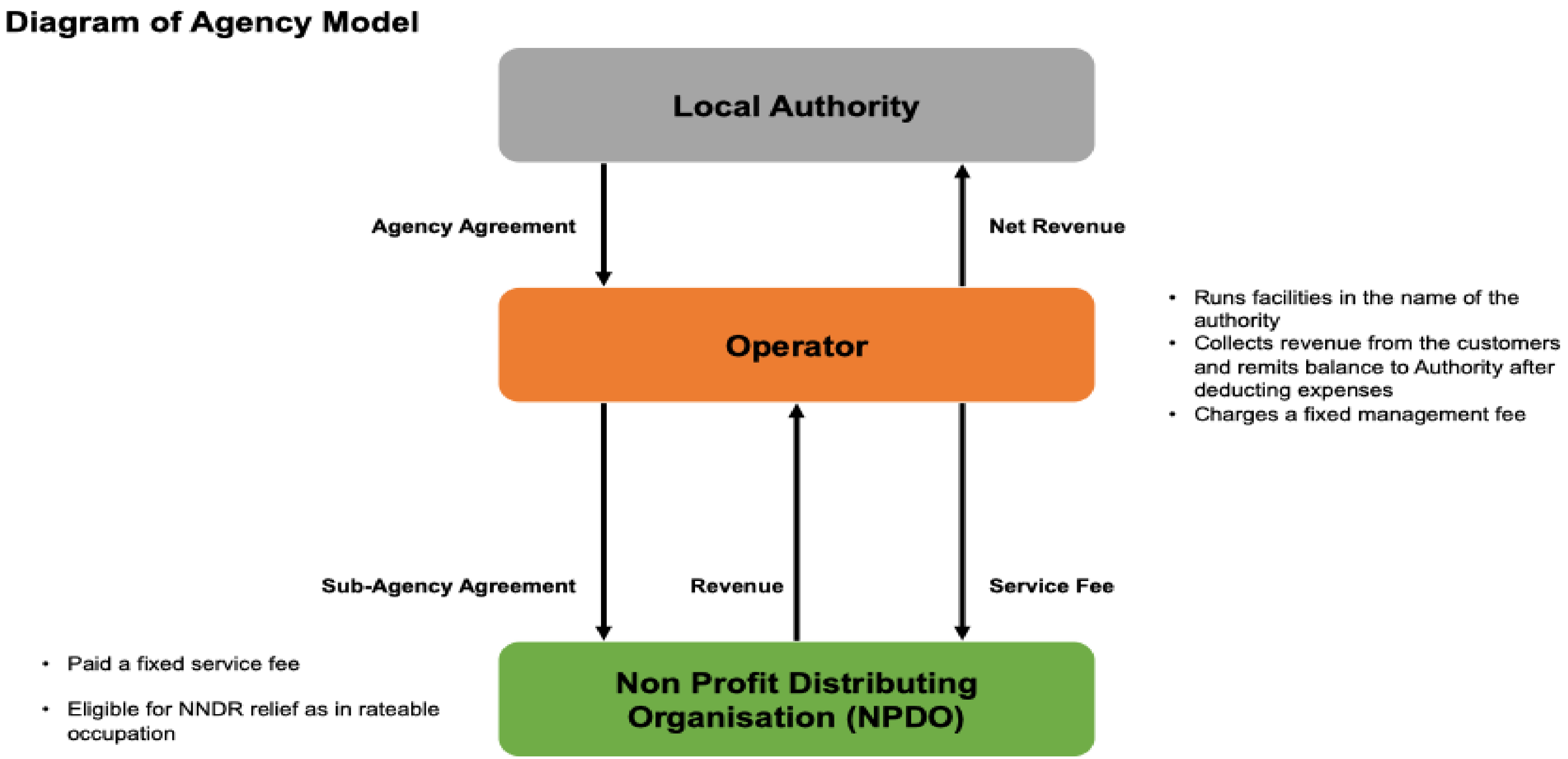
- The agency model enables the operator to reclaim what was previously irrecoverable VAT on expenditure (this in effect becomes an income and therefore the overall service can be offered for less cost)
- Under an agency model more of the operational risk is retained by the local authority, because the operator acts as an agent on their behalf

3.31. 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.

3.32. An outsourced contract is typically more-cost-effective than any other operational model because leisure operators are able to spread their overheads across a large number of contracts. PLT, an in-house operation or a LATCo does not have this ability if it simply manages the facilities and services for one local authority.

3.33. The UK VAT changes introduced in 2023 have created the opportunity for what is known as the ‘Agency Model’; this is an outsourced operational model, delivered by a leisure operator as shown in Figure 1:

Figure 1: Diagram of the Agency Model and how it works



3.34. The view is often expressed that outsourcing a leisure management contract means that a local authority loses ‘control’. This is not the case; a local authority retains control over what is delivered and how through a detailed specification; it is this mechanism that should underpin a long-term partnership with an operator and set out the vision and key outcomes which the local authority wants to achieve through its leisure facility provision.

Summary of identified operational management models

3.35. Understanding the characteristics of each of the three identified alternative operational delivery models is one thing, applying them in the context of Pendle is another. It is this more local assessment, which compares each option with the existing Pendle Leisure Trust (PLT) operation that is critical in determining the way forward.

3.36. The ensuing local assessment considers both financial and non-financial factors, both of which are crucial to understanding which operational management model best meets PBC needs.

3.37. 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 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.

3.38. These are summarised in Table 1.

Table 1: Key factors affecting the financial benefits of each operational model

Operator Model	NNDR saving	VAT Impact	Risk Allocation	'Control'	Cost Effectiveness
In House	N	Y should be able to reclaim irrecoverable VAT on expenditure	All risk sits with LA: Income, expenditure, lifecycle, pensions etc	Direct delivery	**Higher costs because:** LA staff are on higher salaries, better Ts and Cs; inability to apportion overhead costs against more than one contract; no NNDR benefits
LATCo	Y	Impact of VAT changes to be fully explored	All risk sits with LA because this is a LA-owned company: Income, expenditure, lifecycle, pensions etc	LA 'has control' through the specification and agreed outcomes	**Lower costs than in-house**
Outsourced (Traditional)	Y	Full benefits unlikely to be achieved through this model now, but depends on how an operator's charitable model is set up	All risk sits with operator except lifecycle on older buildings	LA 'has control' through the specification and agreed outcomes	**Cost-effective:** Main reason is lower staff costs even allowing for real living wage (staff costs are circa 80% of a contract's costs), NNDR benefit and ability to spread overheads across a number of contracts
Outsourced Agency Model	Y	Full benefits likely to be achieved through this model, but depends on how an operator's charitable model is set up	Risk predominantly sits with operator except lifecycle on older buildings and expenditure	LA 'has control' through the specification and agreed outcomes	**Cost-effective:** Main reason is lower staff costs even allowing for real living wage (staff costs are circa 80% of a contract's costs), NNDR benefit and ability to spread overheads across a number of contracts, plus new VAT benefits

Key: LA – local authority

4. Stakeholder Consultation

4.1. To inform the appraisal of alternative management options SLL undertook consultation with identified key stakeholders. The purpose of this is to inform the options appraisal and understand any specific points to address in the appraisal.

4.2. A summary of the consultation feedback is set out in Table 2.

Table 2: Stakeholder Feedback

Stakeholder	Feedback
PBC Leader	• The current management structure is unsustainable, with excessive overheads and insufficient efforts to address inefficiencies. • Bringing services in-house may not be the solution due to the inherent costs but is worth considering, particularly in the long-term • External management may be the best option, especially considering the high costs associated with facilities like swimming pools in Colne and Pendle Wavelengths.
PBC Deputy Leader	• The Cllr disputes the claim that Pendle Leisure Centres are old. They were not built with a 40 year lifespan. • LATCO and in-house can be considered moving forward due to the significant cost gap between income and direct costs of leisure centres under PLT. • Facilities like Seedhill Golf and The Municipal Hall face structural challenges • There are four tiers of management within the Trust, leaner management is required for cost-efficiency. • There's interest in bringing facilities in-house if it proves less costly, with key areas of concern being VAT, NNDR, LGPS, and residual maintenance. • The Council has covered significant financial gaps, raising questions about sustainability. • Outsourcing remains an option, but any decision will require 12-18 months of procurement and careful consideration of the current expenditures and potential savings. • Asset transfer of certain facilities e.g. Municipal Hall should remain on the table • It is important to understand the true risk and cost of all management options • Concerns over the makeup of the PLT Board; trustees have been a long time in post.
Leisure Portfolio Holder	• Concerns there are duplicate roles within PLT staffing • Maintaining the status quo is unsustainable due to stagnation and lack of evolution on the board and unsustainable finances • The current board has remained unchanged since inception, leading to complacency. It's proposed that the board members should have term limits, as 25 years of service is unusual and potentially detrimental. • The need for a strategic plan spanning 3, 5, and 10 years is emphasised, to explore the best management options and ensure the business's future viability.

Stakeholder	Feedback
	• Political decisions must be informed and based on a thorough analysis of cost-saving alternatives.
Director of Resources	• Bringing services back in-house will result in immediate financial impacts, particularly due to increased pension pressures and potential redundancies. • Legalities around TUPE staff transfers, and cost implications of rebranding, uniform changes, and improved infrastructure must be considered. • While there may be eventual benefits, such as shared services and reduced staff costs (through duplication of roles), the immediate concerns lie in the high costs and potential disruption during the transition. • Outsourcing could provide stability through a consistent management fee but does need further consideration.
PBC Finance Director	• Experience from similar councils (e.g., Kendal, Rossendale) highlights the importance of detailed financial oversight and control. • There is potential for increased control if services are brought back in-house, though this would also place additional strain on finance staff in particular. • The Local Government Pension Scheme (LGPS) remains a significant consideration, particularly as younger staff currently mitigate higher costs.
PBC CEO	• Concern over the sustainability of a trust which effectively only operates the facilities of one local authority as all overheads are apportioned to this one contract. • PLT does a good job considering the challenges of the existing PLT portfolio and has been impacted significantly by rising utility costs, increases to the National Living Wage etc. • Pendle is not an affluent area and therefore there are also challenges about affordability of participation in leisure. • The existing facilities are being invested in but they are ageing meaning operational costs are higher. • PLT has a large management structure which is an overhead cost. • PBC had a Peer Challenge which identified the need to address the way forward for leisure provision in the borough.
PLT CEO (outgoing)	• PLT has just appointed a new CEO. • There is a misunderstanding about the operational management structure of PLT; the majority of managers are also on shift which reduces the number of staff needed overall. • PLT operates as efficiently as possible given the age, condition and nature of the PBC leisure portfolio. • There is investment going into the facilities in 2024. • Concerned about another review of operational management in the borough. • Identified that there may be a significant legal issue with existing leases if PLT is not managing the facilities.

4.3. In addition to speaking to identified stakeholders, SLL also consulted with all town and parish councils in Pendle to understand their potential interest in taking on the operational management of PBC leisure facilities.

Table 3: Parish Councils in Pendle

Parish/Town Council	
Barley-with Wheatley Booth Parish Council	Higham with West Close Booth Parish Council
Barnoldswick TC	Kelbrook and Sough Parish Council
Barrowford Parish Council	Laneshaw Bridge Parish Council
Blacko PC	Nelson Town Council
Brierfield Town Council	Old Laund Booth Parish Council
Colne Town Council	Reedley Hallows Parish Council
Earby Town Council	Roughlee Booth Parish Council
Foulridge Parish Council	Salterforth Parish Council
Goldshaw Booth Parish Council	Trawden Forest PC

4.4. All Town and parish councils were contacted in July 2024 and asked to meet with SLL. The email explained to them the reason for the meeting and the aim of the discussion.

4.5. The majority of the parish councils did not respond to the consultation request. Those that did are not interested in/unable to taking on operational management responsibility for PBC leisure facilities. The following parish Councils did not respond to the consultation:

Table 4: Parish Council – Non respondents

Parish/Town Council	
Barley-with Wheatley Booth Parish Council	Trawden Forest PC
Goldshaw Booth Parish Council	Laneshaw Bridge Parish Council
Barrowford Parish Council	Old Laund Booth Parish Council
Blacko PC	Reedley Hallows Parish Council

Parish/Town Council	
Brierfield Town Council	Roughlee Booth Parish Council

4.6. Kelbrook and Sough Parish Council did make contact to try and understand what the meeting was about, but this was after the deadline for arranging a meeting.

4.7. The town councils responded as follows:

Table 5: Summary of Town Council responses

Town Council	Summary Response
Nelson Town Council	• In the interim, the Town Council cannot focus on long-term asset management due to existing liabilities. • If there is a possibility for Pendle Borough Council (PBC) to manage the facilities directly moving forward collaboration with town councils is crucial to sustain them. • The town council has concerns about the lack of expertise required for effective management and improvement of facilities. • Despite available funding options, raising the precept to cover costs is not a preferred solution. • Unless significant investment happens, the Town Council would not consider managing the leisure facilities.
Colne Town Council	• In the interim, the Town Council cannot focus on long-term asset management due to existing liabilities. • Calculations suggest that each Band D household in Colne would have £70 per annum added to the precept to ensure Colne Leisure Centre was financially sustainable, this is not an option for the Town Council • It would add £14 per Band D property across all of Pendle to ensure Colne Leisure centre was financially sustainable, again, not a realistic option • Having the leisure centres in Pendle is very important. Having one in Colne is ideally located.
Barnoldswick Town Council	• From a business perspective, the Town Council is not interested in operating any leisure facilities

4.8. All other Town/Parish Councils responded via email to state that they would not be interested in operating any PLT/PBC leisure facilities.

4.9. It is clear there is no interest in taking on the operational management of PBC facilities at town and parish council level, predominantly due to lack of requisite expertise and resources, and in the case of Colne Town Council, ongoing liabilities.

4.10. The need for investment in the facilities prior to developing any further interest is also highlighted as an issue.

5. Summary of Soft Market Testing (SMT)

5.1. A soft market testing exercise was undertaken in July and August 2024 to inform the options appraisal, and specifically to provide an update to PBC on the potential for an outsourced contract. In 2019 a soft market testing exercise undertaken by Max Associates did not produce significant interest in managing the PBC leisure portfolio.

5.2. SLL included in the SMT exercise similar questions to those asked by Max Associates in 2019 for consistency, but also added additional points to reflect the changes in the market between 2019 and 2024.

5.3. The main six UK leisure operators were contacted for this SMT exercise. These are:

- Everyone Active (SLM)
- Freedom Leisure
- Greenwich Leisure Limited (GLL)
- Serco Leisure
- Parkwood Leisure (Legacy Leisure)
- Places Leisure

5.4. Four of these six operators responded to the SMT. A summary of the leisure operator responses is set out in Table 6.

Table 6: Summary of Leisure Operator responses to SMT

Questions for Operators	Parkwood	GLL	Places Leisure	Everyone Active
1. Would you be interested in tendering for a new contract in Pendle?	Yes we would, and the diversity of facility mix would be attractive to us.	We may be interested but it will depend on the tendering market at the time and the parameters of the tendering process (e.g. will the Vat agency route be available for bidders).	Yes, Places Leisure would be extremely interested in tendering for the new contract in Pendle.	Yes, we would be interested.
2. Would you be interested in a contract of 10 years + up to a potential 5-year extension? If not, please state the duration that you feel would be appropriate and of interest to the market.	Yes, 10 + 5 would be fine with us, assuming a normal approach to contract risk and provisions.	Yes this is a suitable contract length but it will depend on the certain variables such as capital requirement and change in leisure stock. Any extension should be mutual.	For a DBOM contract, we would prefer a longer-term contract in keeping with the DBOM market of 15+ years (subject to standard Sport England endorsed market provisions being in any form of contract). This allows for depreciation of the initial investment over a longer period and enables realisation of a financial return on that investment. For Best Value contracts, we prefer a contract length of at least 10 years with an optional 5-year extension period (mutually agreeable). This allows a sufficient payback period to justify investment at the start of the contract without being so long as to introduce too many unknown elements for forecasting business plans toward the end of the contract term. An alternative can be to consider a 5+5+5-year contract to reduce risk in the initial term, but this may also reduce the viability of significant investment early in the contract.	Yes – a 10 year with 5 year extension option would be an appropriate term.

Questions for Operators	Parkwood	GLL	Places Leisure	Everyone Active
3. Are there any specific barriers to you tendering with regard to procurement methods?	No specific barriers, although we always prioritise procurements where there is an opportunity for dialogue as it helps us to understand the client aspirations and key drivers better. We would encourage the Council to consider inclusion of the agency model to maximise efficiency and enable reinvestment in the service.	We would recommend that negotiated flexible route is used so that operators can work with the Council on ensuring solutions are tailored to local requirements.	Please refer to our response to Q7, risk allocation. The market is extremely busy at this current time, and we therefore must prioritise opportunities which represent a fair and equitable balance of risk transfer, aligned with the Sport England Form of Contract.	There are no specific barriers that would prevent us from tendering with regards to procurement methods. Given that the tendering market is currently very busy we would need to consider the volume of tenders on at the time, and also the amount and the procurement timeframe, but in terms of methodology, we would not normally be deterred by any particular approach. Our preference is to operate towards the standard Sport England Procurement Toolkit and follow either a dialogue, or negotiation approach so that we can have meaningful interaction with the Council so that we can fully understand their requirements and tailor our proposals accordingly. We would not be interested in an asset transfer or commercial lease that passes total responsibility and commercial risks to the operator.

Questions for Operators	Parkwood	GLL	Places Leisure	Everyone Active
4. What is your view on investment in the facilities? 4.1 A contract comprising improved facilities decided by the Council, (potentially some involvement during procurement once the facility mix is decided) 4.2 Would you be interested in a contract with the opportunity to be a development partner and involvement in the facility mix for the sites. 4.3 Views in respect of any interested partner investment opportunities are also sought.	Given our experience in facility development we would prefer to be involved as a development partner, enabling long term operations and customer needs to be central in the investment process. We would normally look to invest in loose FF&E, including gym equipment, but not in the buildings themselves as they remain Council assets.	We would prefer 4.2. We have a number of case studies demonstrating that the involvement of the operator as development partner have better outcomes for the customers, service and Council. The capital funding of the any investments would need some thought as it is important that the most tax efficient route is available to the partners, which ensures that the maximum capital investment goes into the centres and products rather than lost through tax payments. The full agency route would allow operators to provide capital in a tax efficient manner to support the objectives of the development partnership.	Our preference would be a contract with the opportunity to be a development partner and have input into the facility mix and design.	Our preference would be to be a development partner and have involvement with the decision making on what type of investment is made. However, we would not be able to bring capital investment – we suggest that the Council are best placed to provide funding through prudential borrowing as this is always a more cost-effective approach. We would not be in a position to provide significant investment. We would invest in new health and fitness equipment during the contract period, but as the facilities remain the Councils asset, we always suggest that the Council are best placed to secure and provide funding for such schemes.
5. If the latter, please confirm the minimum contract period you would consider?	10+5 remains attractive to us, given the capital will need to be provided by the Authority.	Again, this would depend on the level of investment required and what this investment would be expended on. The higher the capital investment by the operator then a longer contract term would be preferable.	For a DBOM or contract involving significant facility enhancements/ investment, we would prefer a longer-term contract in keeping with the market of 15+ years (subject to standard Sport England endorsed market provisions being in any form of contract). This allows for depreciation of the initial investment over a longer period and enables realisation of a financial return on that investment.	Depending on the level of capital investment, we recommend at least a 15-year + 5-year extension, which would provide the best return on investment for both the Council and the operator.

Questions for Operators	Parkwood	GLL	Places Leisure	Everyone Active
6. What are your views and experience on achieving net Carbon Zero in facilities?	There are significant opportunities for carbon reduction and energy efficiency associated with green technologies, which we have prioritised across our estate. However, focusing solely on 'net zero' should be viewed with caution given that green technology investment is evolving extremely quickly and some technologies are not tried and tested as yet.	We have extensive experience of lowering carbon across a large number of leisure facilities as we progress our Sustainability Strategy, which have a target of getting our organisation to Net Zero. Naturally, the older the facility then it is less likely that they will be able to operate at net zero but there is the opportunity for new build (or extensively refurbished) facilities to become net zero. A key dynamic is the capital investment required for new builds, in particular those that are looking to be Passivhaus compliant.	Our Net Zero commitment date is currently targeted for 2035. The main barriers to Net Zero are presently the general age of facilities throughout the UK's leisure stock, the costs associated with improving facilities to be carbon neutral and balancing any payback period during the initial contract term. The Council should be aware that, overall, any aspiration for Net Zero will affect the cost of the bid and the affordability of the management fee. Carbon-neutral technology and the energy it utilises are considerably more expensive than their predecessors, with additional costs for associated servicing and maintenance.	Recognising our responsibility to contribute to achieving a zero-carbon Britain, we have worked with our partners at Carbon Intelligence and developed a company called Net Zero Pathway, which is aligned with government and council strategies. We have established a working party, consisting of our Business Development and Group Development Directors, Group HS&Q Manager, Regional Technical Managers and Business Development Technical Manager. This development now addresses: • individual Council's own net-zero strategy, ambitions and policy • the financial burden of de-carbonisation activities • the determination of responsibilities between Scope 1, 2 & 3 emissions types • our plans for stakeholder engagement; our colleagues (and internal resources), suppliers, Council officers and Climate Change Champions • understanding how fossil fuel consumption can be minimised and removed from assets and / or activities.

Questions for Operators	Parkwood	GLL	Places Leisure	Everyone Active
7. The Council seeks the market's view regarding any transfer of risk, particularly in the aftermath of Covid 19 and its operational impact. In particular your view in respect of Risk Allocation- your views on where this should sit following Covid? e.g. maintenance, lifecycle, utilities, National Insurance (NI) etc	We would usually work to the Sport England risk matrix in the procurement toolkit, with for example a split in maintenance, with the operator taking day- to-day maintenance and reactive maintenance risk and the Authority retaining lifecycle and major structural risks. Utilities would be shared with a utility benchmark mechanism in place	To allow operators to provide the Council with an efficient tender then a balance in the risk allocation is required. Some key areas we would expect the Council to take the risk on include: • Pandemic cover (operator to be no better / no worse off) • Pension risk (LGPS) - Council to take pension risks that are outside of the control of the operator • Maintenance - Traditional landlord / tenant split. However, if the full agency was available then further risk could be passed to the operator • Utility tariff risk - Council to retain tariff risk / benefit across the contract term • Delay risk on developments outside of the operators control • VAT agency risk when introduced after the tender award process	For all delivery options, we would wish to see the Sport England Leisure Services Delivery Guidance (LSDG) and associated standard form of Leisure Operating Contract (LOC) used to create the delivery framework, retaining all key clauses. This provides a fair and equitable balance of the key risks present in leisure operating contracts, including the key items below. A shared risk for maintenance and repair of buildings and assets should be applied to any existing facility; we would expect the Council to retain responsibility for: • Building and pool structure • Roofs • Asbestos • Underground services & site conditions • Any known or unknown latent defects • The external envelope of the facility. In a new facility, we would be comfortable taking the full risk as the facility should be covered by contractor warranties. Under a DBOM contract, we would be even more comfortable as we would have overseen the build phase and have a direct relationship with our preferred contractors.	**Maintenance** - We would propose adopting a collaborative approach to maintenance risk, wherein the Council assumes responsibility for major lifecycle and structural aspects of existing facilities. While we are open to a comprehensive repair, maintain and ensure arrangement, we must note that this might not be as financially appealing to the Council, as we would incorporate the associated risks into our costs. Some Councils have implemented a maintenance /lifecycle cost threshold in their facility tenders, specifying that the Council covers costs exceeding, for instance, £20,000. In the case of older facilities with full maintenance obligations, exploring the possibility of capital investment from the Council or adjusting the risk profile related to lifecycle responsibility could be considered to mitigate risk and liability. Without such modifications, operators would be compelled to include these additional responsibilities in their pricing considerations. **Utilities** - Our preference would be for a shared approach towards risk with the operator taking utility consumption and a risk share on tariff increases.

Questions for Operators	Parkwood	GLL	Places Leisure	Everyone Active
				This is usually done in the form of the Sport England Utility Benchmarking process, with the Council taking on the risk of utility price increases above CPI. Or it could take the form of a cap and collar approach whereby the operator takes the first percentage increase and the Council anything above the cap. Due to the volatility of energy prices, we would suggest the authority provide tariff rates for bidders to use rather than requesting operators to submit bids using forecasted costs during the evaluation process. **Pandemic** - We would be willing to take commercial risk on income / expenditure performance for a new contract, save for the fact that we would ask the Council to include a clause in the contract that would deal with the impact of current law changes made due to any future new pandemic impact. The Sport England contract clauses deal with this, and we are happy to operate on that basis. During the covid period we operated on an open-book basis in accordance with the Change in Law clause in the Sport England contract and we feel that this offers a fair approach towards pandemic risk. We now consider each tender opportunity on a bid / no bid basis, with the key factors that influence our bidding decisions being the risk profile with regards to utilities and pandemic risk.

Questions for Operators	Parkwood	GLL	Places Leisure	Everyone Active
				We consider all opportunities for contracts but will only tender for contracts that do not pose a significant risk to the operator. We would request that the Sport England Model Contract is employed and that a pandemic clause that places the operator in a "no better no worse" situation - in the event of further pandemic events / restrictions coming into force. We would not be able to accept full risk in the event of any further pandemic and the restrictions that it could bring to the sector. **Pensions:** We would ask that we are protected via a cap and collar Sport England contract schedule where a fixed contribution rate can be priced for.
8. What is your view on Utility Benchmarking - does it need to be included in the contract?	Yes - the market remains volatile and this is important in delivering a value for money solution.	Yes (see bullet 4 in Q7), although the current Standard Form drafting has a number of challenges when it comes to benchmarking.	Unfortunately, at present, we would not bid for any contract without energy benchmarking under any partnership options. Whilst we are very comfortable taking the risk on utility consumption, utility tariffs are impossible to forecast, especially during this period of extreme price volatility. Therefore, it is essential that the standard utility benchmarking clause is included within any leisure procurement. Of course, this clause works for both the Local Authority and Operator in that, if tariff rates drop below those locked in at preferred bidder stage during the contract term, the LA receives the benefit of those lower tariffs via the UB clause. We have many real-life examples of this being the case.	We suggest that Utility Benchmarking should be included in the contract due to the current volatility and uncertainty regarding utility tariffs.

5.5. It is clear from the above that there is now significantly more market interest amongst the main leisure operators in managing PBC leisure facilities.

5.6. The key issues to consider in an outsourced contract, based on the above responses, are:

- Risk and how this is balanced between the local authority and its operator partner;
- Specific risk areas that need careful consideration include utility costs and benchmarking, sustainability, staffing and TUPE, pensions, maintenance liabilities;
- Investment potential – operators are keen to invest in facilities as a development partner with a local authority;
- Change in Law following the pandemic;
- Whether to implement the agency model route.

6. Options Appraisal

6.1. Before looking at the identified alternative operational models in detail, it is important to understand the existing PLT delivery model and to what the other models are being compared.

6.2. Established in 2000, PLT is a registered society under the Co-operative and Community Benefit Societies Act 2014. PLT is a non-profit-making organisation, which invests back into the facilities it operates once the cost of operating them has been covered. PLT's vision is:

> ***'To provide and manage a comprehensive range of quality leisure facilities, which enhance the quality of life for the residents, workers and visitors of Pendle with particular emphasis on improving the wellbeing of our community.'***

6.3. 'PLT operates three leisure centres, an athletics and fitness centre, a theatre, a spa and golf course. PLT is part of Sport England's Pennine Lancashire Local Delivery Pilot 'Together and Active Future'. Pennine Lancashire is identified as a key 'place' in Sport England's Place Expansion initiative, which means there is potential for funding (capital and revenue) for investment in reducing health inequalities and increasing levels of physical activity (this potential funding applies to Pendle and not simply PLT).

6.4. The PLT 2023-2024 (April 23 – March 24) end of year report identifies the following:

- 672,000 visits at PBC facilities
- Every week 1630 children learnt to swim in the leisure centres
- 7,500 children attended the Pendle Primary School Swim for FREE Scheme
- 240,000 visits to the facilities were for swimming-based activities
- 70,000 visits were for fitness classes

6.5. PLT also operates a number of community-based projects. These include:

- 7,000 attendances at 'Up and Active' projects including Healthy Lifestyle, Adult Weight Management and Cardiac Rehabilitation
- 6,000 attendances at the 'Good Life ' project, Hodge House allotments
- 527 attendances at the 'Arts for Wellbeing' project

6.6. Out of all attendees surveyed:

- 96% have improved levels of physical activity
- 90% have improved levels of mental wellbeing
- 88% have lost weight

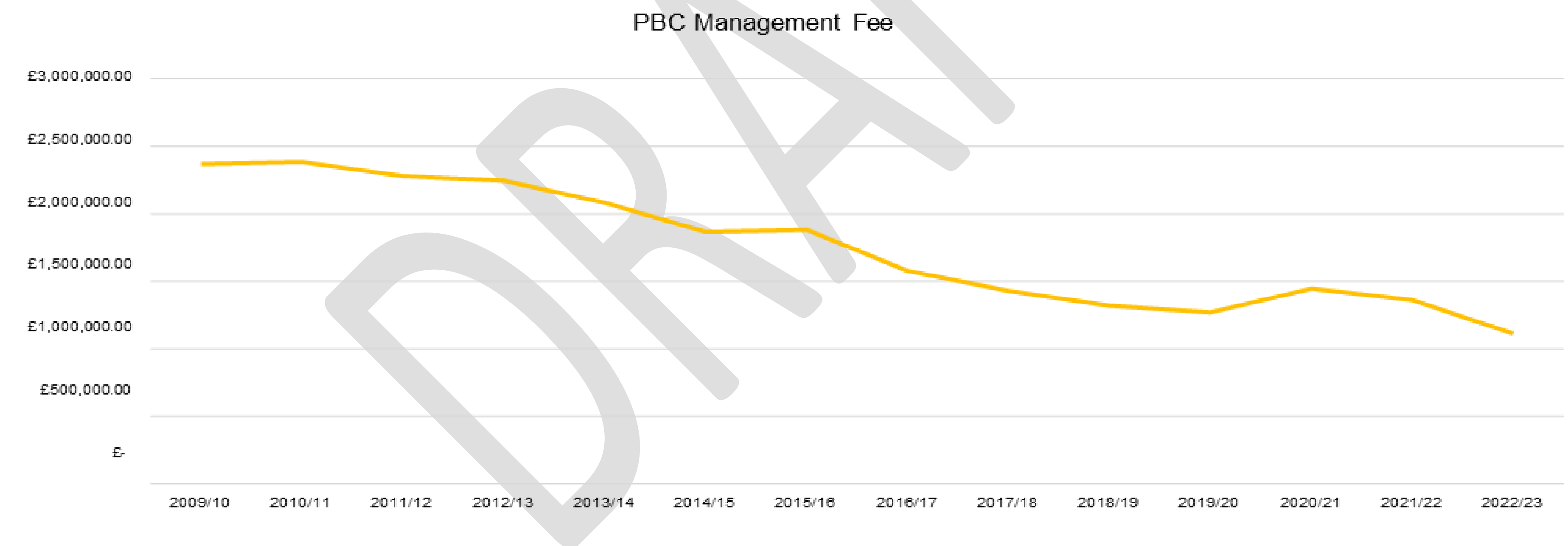
6.7. In 23/24 PLT increased the Activo membership base by 6.4%, grew membership income by 9.8% and increased junior participation by 11% across all facilities.

6.8. THE 2022 Social Return on Investment (SROI) Report (The Evaluator) for PLT highlights that for every £1 invested in PLT there is a SROI OF £22.99. This has increased from £22.37 in 2019. The 2022 SROI report also highlights that 62% of PLT users are from the most deprived areas in the borough. 38% are from the least deprived areas.

6.9. Since the establishment of PLT there has been a reduction in the management fee paid by PBC with the exception of the Covid years, as illustrated in Figure 2:

Figure 2: Reduction in PLT Management Fee

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
															Since 09/10
Income															
Management Fee	2,374,210	2,388,400	2,282,406	2,247,612	2,083,510	1,865,130	1,880,200	1,576,200	1,426,200	1,314,900	1,266,020	1,442,360	1,357,410	1,107,410	**22,237,757**
Year on Year Change Reduction/Increase															
Management Fee		14,190	-105,994	-34,794	-164,102	-218,380	15,070	-304,000	-150,000	-111,300	-48,880	176,340	-84,950	-250,000	**-1,266,800**
Covid Additional		0	0	0	0	0	0	0	0	0	0	342,886	230,000	0	**572,886**



6.10. The key characteristics of PLT are summarised in Table 7.

Table 7: Summary of PLT

Operator Model	NNDR saving	VAT Impact	Risk Allocation	'Control'	Cost Effectiveness
PLT	Y	Impact of VAT changes to be fully explored	Risk is partially off-loaded from PBC because PLT is a stand-alone entity. However, ownership of the buildings rests with PBC. PBC also pay a subsidy to PLT to support the operation of the leisure facilities.	LA should 'have control' through the specification and agreed outcomes (KPIs). SLL has not been able to identify a contract or Service Level Agreement between PBC and PLT. It is therefore also unclear whether there are KPIs in place to which PLT has to respond.	Lower costs than in-house because of NNDR savings. Higher costs than both a LATCo and outsourced model. It is also important to remember that PLT secures a significant amount of external funding on an annual basis; which finances the majority of the outreach and developmental services provided through PLT. It is able to do this because it is a trust and can access funding not available to a local authority.

Key: LA – local authority

6.11. PLT clearly delivers a range of facilities and services on behalf of PBC and is making an impact in the local community in terms of reducing health inequalities and getting more people active.

6.12. There does not appear to be a specification or Service Level Agreement (SLA) setting out the Council's vision and expectation for the facilities managed by PLT, nor clear KPIs against which PLT needs to report. There is a funding agreement in place (dated 2000) which states that "the Council must use best endeavours to ensure that future levels of funding are sufficient to assist the Trust to achieve its objectives"

6.13. Management of an athletics track, and a golf course, is challenging; athletics tracks do not attract high throughput other than for events and regular club users, and golf courses are only used by golfers. The theatre has been closed for much of 2023/24 and this has impacted throughput.

6.14. Whilst the figures above represent an impressive throughput, given the nature of the facilities managed, it is important to highlight that an overall throughput of 672,000 is about 8,960 actual users, based on attendance 1.5 times per week. This is just under 10% of the Pendle borough population (2021 Census 96,000 residents).

Financial Assessment of the identified Operational Management Models

6.15. Four Management Options have been modelled on a high-level basis

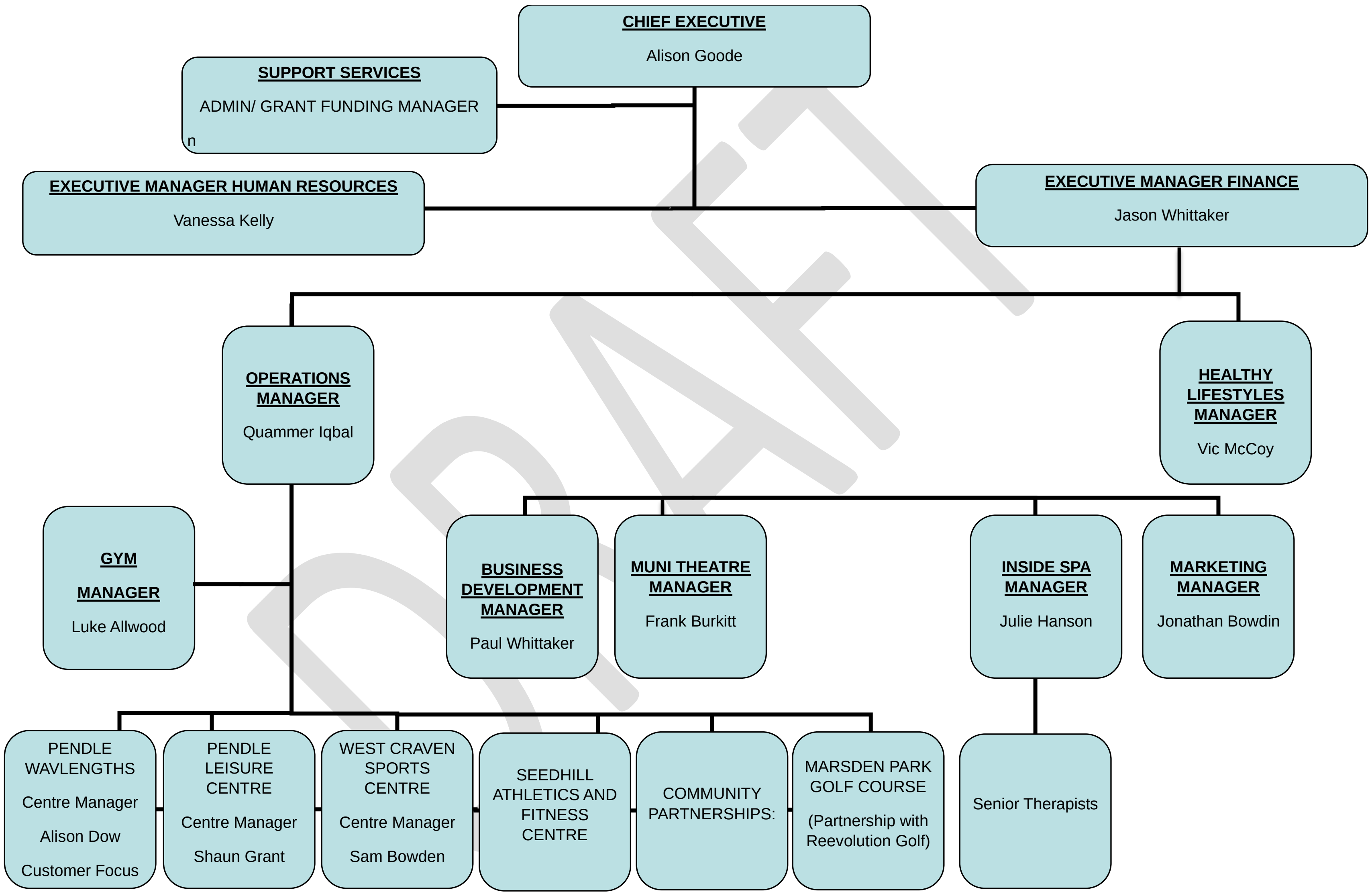
- Pendle Leisure Trust (PLT) – as the existing, and therefore baseline, model
- In-House Operation
- Local Authority Controlled Company (LATCo) with Charitable Objectives
- Outsourced Via a New Agency Arrangement to maximise taxable savings

6.16. Facilities and Services Included within the analysis are:

- West Craven Sports Centre
- Pendle Wavelengths
- Inside Spa and Gym
- Pendle Leisure Centre
- Seedhill Gym and Athletics Track
- Colne Municipal Hall
- Community Engagement Services
- Central Team

6.17. The PLT organogram in Figure 3 provides the basis for the staffing costs in the baseline position, against which staffing costs in alternative delivery options are modelled.

Figure 3: PLT Organogram



6.18. Analysis is provided at high level and for illustrative purposes only, based on a range of assumptions. Analysis is based on comparing the management options at a Deficit After Deprecation and Central Support Costs Level. This means that in tables 10, 12, 14 and 15 the cost of each option at is assessed at a ‘net’ level and once all ‘below the line’ costs are taken into account (depreciation etc).

6.19. The assumptions made for PLT are:

Table 8: The assumptions made for PLT

Pendle Leisure Trust (PLT)
Pendle Leisure Trust is used as the baseline benchmark April 24 - March 25 Budget is used as the benchmark Depreciation Charges and Central Support Charges are moved 'below the line' Subsidy paid by Council is also moved 'below the line' PLT is eligible for 100% NNDR Relief PLT suffers some Irrecoverable VAT on expenditure (mitigated via novation of utility contracts to the Council) April 23 - March 24 Outturn is included for comparison purposes only with 24-25 Budget

6.20. In tables 10, 12, 14 and 15 the following colour coding is used:

- A red cell indicates the cost is an increase on the existing costs of PLT
- A green cell indicates this is a reduction in cost against the existing PLT costs
- The blue cells highlight the cost comparisons at net and overall positions

In-House Operation

6.21. The assumptions made about an in-house operation, based on the characteristics assessed in Section 3 are:

Table 9: The assumptions made about an in-house operation

In-House Operation Assumptions	
No Eligibility for NNDR Relief with annual Costs assumed as	£385,700
VAT Treatment in relation to Income assumed to be the same as with PLT	
Assumed No Irrecoverable VAT on expenditure as a result of new VAT arrangements available to the Council	
Assume overall income levels will be maintained at PLT level	
Assume a 3% increase in Salaries and Wages Costs as a result of harmonisation to Council T&C's	1.03
PLT Depreciation Charges removed	
Council Support Costs maintained at the same level as PLT currently use	

Table 10: Pendle Analysis - 2024-25 – In-House

Pendle Analysis - 2024-25 – In-House	**Pendle Leisure Trust**		**In-House Estimate**
	23/24 Outturn	**24/25 Budget**	
Total Income	**3,740,036**	**4,130,170**	**4,130,170**
Total Cost of Sales	**477,937**	627,600	627,600
Gross Profit	**3,262,099**	**3,502,570**	**3,502,570**
Total Employee Costs (£110,664)	3,236,588	3,688,130	3,798,774
Total Premises Costs (NNDR £385,700)	1,291,269	1,201,300	1,587,000
Transport Costs	10,823	11,400	11,400
Total Supplies and Services Costs	480,542	430,580	430,580

Pendle Analysis - 2024-25 – In-House	Pendle Leisure Trust		In-House Estimate
	23/24 Outturn	24/25 Budget	
Total Expenditure	5,019,222	5,331,410	5,827,754
Irrecoverable VAT	129,575	75,000	0
Net Deficit	**1,886,698**	**1,903,840**	**2,325,184**
Depreciation	97,849	135,350	0
Central Support			
Borough of Pendle	68,250	71,660	71,660
Total Central Support	68,250	71,660	71,660
Deficit After Depreciation and Central Support Costs	**2,052,798**	**2,110,850**	**2,396,844**
Increase in Deficit of In-House Operation			**285,994**

6.22. The above analysis tells us that:

- There will be an increase in PBC subsidy of £285,994 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)

6.23. **The cost to PBC of in-house operated leisure facilities will be higher than the existing PLT operation. The increased cost calculated excludes the potential cost of any fitness equipment; the extent to which this would need to be purchased would be dependent on negotiations with PLT.**

6.24. This finding is consistent with the findings of a recent report by Community Leisure UK which found that on average the costs of operating a service in-house are circa 20% higher than when operated through a trust. Recent examples of changing trust operational delivery to in-house services include the LB Tower Hamlets which is now £2m more expensive to operate per annum, Wigan where the cost is an additional £1.8m per annum, and Falkirk where the additional cost per annum is 1.3m.

Local Authority Controlled Company (LATCO) with Charitable Objects

6.25. The assumptions made about a LATCo operation, based on the characteristics assessed in Section 3 are:

Table 11: The assumptions made about a LATCo operation

Local Authority Controlled Company (LATCO) with Charitable Objectives	
Eligible for 100% NNDR Relief	
VAT Treatment in relation to Income assumed to be the same as with PLT	
LATCO will suffer Irrecoverable VAT on expenditure to the same level as PLT	
Assumed a 2.5% increase in Swimming and Health & Fitness related income	1.025
Assume overall staffing costs will be at the same level as PLT	
PLT Depreciation Charges removed	
Council Support Costs maintained at the same level as PLT	
No costs have been included for the initial set up of the LATCO	

Table 12: Pendle Analysis - 2024-25 (LATCO)

Pendle Analysis - 2024-25 (LATCO)	Pendle Leisure Trust		LATCO Estimate
	23/24 Outturn	24/25 Budget	
Total Income	**3,740,036**	**4,130,170**	**4,189,542**
Total Cost of Sales	477,937	627,600	627,600
Gross Profit	**3,262,099**	**3,502,570**	**3,561,942**
Total Employee Costs	3,236,588	3,688,130	3,688,130
Total Premises Costs	1,291,269	1,201,300	1,201,300
Transport Costs	10,823	11,400	11,400
Total Supplies and Services Costs	480,542	430,580	430,580

Pendle Analysis - 2024-25 (LATCO)	Pendle Leisure Trust		LATCO Estimate
	23/24 Outturn	24/25 Budget	
Total Expenditure	5,019,222	5,331,410	5,331,410
Irrecoverable VAT	129,575	75,000	75,000
Net Deficit	**1,886,698**	**1,903,840**	**1,844,468**
Depreciation	97,849	135,350	0
Central Support			
Borough of Pendle	68,250	71,660	71,660
Total Central Support	68,250	71,660	71,660
Deficit After Depreciation and Central Support Costs	**2,052,798**	**2,110,850**	**1,916,128**
Reduction in Deficit of LATCO Operation			**194,722**

6.26. The above analysis tells us that:

- 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

6.27. **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. The savings calculated exclude the potential cost of any fitness equipment; the extent to which this would need to be purchased would be dependent on negotiations with PLT.**

Outsourced (leisure operator) Via a New Agency Arrangement to maximise taxable savings

6.28. The assumptions made about an outsourced leisure operation, based on the characteristics assessed in Section 3 are:

Table 13: The assumptions made about an outsourced leisure operation

Outsourced Via a New Agency Arrangement to maximise taxable savings	
Operator eligible for 100% NNDR Relief	
VAT Treatment in relation to Income assumed to be the same as with PLT	
Assumed No Irrecoverable VAT on expenditure as a result of new VAT arrangements available to the Council	
Assumed a 10% increase in Swimming and Health & Fitness related income	1.1
Assumed a 7.5% reduction in Salaries and Wages costs (mainly central team)	0.925
Assumed increase in Marketing Costs of 2% of Income to facilitate increase in income	2%
PLT Depreciation Charges removed	
Assume Operator Central Support / Profit charges of 7.5% of Income	7.5%
Council Support Costs removed	
No Costs have been included for procurement and legal services for an outsourced Contract	

Table 14: Pendle Analysis 2024 – 2025 – Outsourced Leisure Operator Agency Estimate

PENDLE ANALYSIS - 2024-25 – Agency Estimate	**Pendle Leisure Trust**		**Agency Estimate**
	23/24 Outturn	**24/25 Budget**	
Total Income	**3,740,036**	**4,130,170**	**4,367,657**
Total Cost of Sales	**477,937**	627,600	627,600
Gross Profit	**3,262,099**	**3,502,570**	**3,740,057**
Total Employee Costs	3,236,588	3,688,130	3,489,830
Total Premises Costs	1,291,269	1,201,300	1,201,300
Transport Costs	10,823	11,400	11,400

PENDLE ANALYSIS - 2024-25 – Agency Estimate	Pendle Leisure Trust		Agency Estimate
	23/24 Outturn	24/25 Budget	
Total Supplies and Services Costs (Marketing £22,536)	480,542	430,580	455,073
Total Expenditure	5,019,222	5,331,410	5,157,603
Irrecoverable VAT	129,575	75,000	0
Net Deficit	1,886,698	1,903,840	1,417,546
Depreciation	97,849	135,350	0
Central Support			
External Operator	68,250	71,660	374,644
Total Central Support	68,250	71,660	374,644
Deficit After Depreciation and Central Support Costs	**2,052,798**	**2,110,850**	**1,792,190**
Reduction in Deficit of Outsourcing Via Agency Model			**318,660**

6.29. The above analysis tells us that:

- 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 largely a result of:
  - An increase in income
  - Retention of NNDR
  - Reduced overheads

6.30. **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. The savings calculated also exclude the potential cost of any fitness equipment; the extent to which this would need to be purchased would be dependent on negotiations with PLT.**

Overall Comparison of Identified Operational Management Options

Table 15: Overall Financial Summary

	Pendle Leisure				
	23/24	24/25	In-House	LATCo	Agency
	Outturn	Budget	Estimate	Estimate	Estimate
Income					
Swimming General	491,175	504,520	504,520	517,133	554,972
Swimming Lessons	472,047	491,150	491,150	503,429	540,265
Swimming School	137,865	137,680	137,680	141,122	151,448
Dryside	93,875	112,380	112,380	112,380	112,380
Health & Fitness	33,705	35,360	35,360	36,244	38,896
Memberships	1,008,687	1,025,940	1,025,940	1,051,589	1,128,534
Health Suite	174,972	180,220	180,220	184,726	198,242
Spa Treatments	124,551	115,150	115,150	115,150	115,150
Outdoor	21,921	21,260	21,260	21,260	21,260
Birthday Parties	21,218	17,860	17,860	17,860	17,860
Misc Rental	7,082	8,660	8,660	8,660	8,660
Dual Use Rental	20,664	20,660	20,660	20,660	20,660
Misc Income	178,254	172,570	172,570	172,570	172,570
Events	128,734	297,000	297,000	297,000	297,000
Grant Income	536,304	580,590	580,590	580,590	580,590
Bank Interest	42,190	40,000	40,000	40,000	40,000
F&B	153,403	273,010	273,010	273,010	273,010
Vending	14,470	14,890	14,890	14,890	14,890

	Pendle Leisure				
	23/24	24/25	In-House	LATCo	Agency
	Outturn	Budget	Estimate	Estimate	Estimate
Retail	78,920	81,270	81,270	81,270	81,270
Total Income	**£ 3,740,036**	**£ 4,130,170**	**£ 4,130,170**	**£ 4,189,542**	**£ 4,367,657**
Cost of Sales					
Food & Beverage	91,481	142,490	142,490	142,490	142,490
Vending	5,070	5,380	5,380	5,380	5,380
Retail	45,441	52,240	52,240	52,240	52,240
Treatments	22,269	18,990	18,990	18,990	18,990
Events	313,677	408,500	408,500	408,500	408,500
Total Cost of Sales	**£ 477,937**	**£ 627,600**	**£ 627,600**	**£ 627,600**	**£ 627,600**
Gross Profit	**£ 3,262,099**	**£ 3,502,570**	**£ 3,502,570**	**£ 3,561,942**	**£ 3,740,057**
Employees					
Salaries & Wages	2,487,345	1,953,810	1,953,810	1,953,810	1,807,274
Instructors	0	819,290	819,290	819,290	819,290
Beauticians/Therapists	0	98,480	98,480	98,480	98,480
Overhead (Hols, NI, Pension etc)	672,340	690,190	690,190	690,190	638,426
Other Staff Costs	0	39,150	39,150	39,150	39,150
Indirect Employee Costs	76,902	87,210	87,210	87,210	87,210
Total Employee Costs	**£ 3,236,588**	**£ 3,688,130**	**£ 3,798,774**	**£ 3,688,130**	**£ 3,489,830**
Premises Costs					
Repairs & Maintenance - Buildings	227,873	201,200	201,200	201,200	201,200

	Pendle Leisure				
	23/24	**24/25**	**In-House**	**LATCo**	**Agency**
	Outturn	**Budget**	**Estimate**	**Estimate**	**Estimate**
Grounds Maintenance	7,726	9,900	9,900	9,900	9,900
Gas	235,515	310,470	310,470	310,470	310,470
Electricity	668,860	507,490	507,490	507,490	507,490
Water	86,784	96,090	96,090	96,090	96,090
NNDR	0	0	385,700	0	0
Rents	1,328	20	20	20	20
Cleaning Supplies	62,738	75,650	75,650	75,650	75,650
Insurance	445	480	480	480	480
Total Premises Costs	**£ 1,291,269**	**£ 1,201,300**	**£ 1,587,000**	**£ 1,201,300**	**£ 1,201,300**
Transport Costs					
Transport Costs	**£ 10,823**	**£ 11,400**	**£ 11,400**	**£ 11,400**	**£ 11,400**
Total Transport Costs	**£ 10,823**	**£ 11,400**	**£ 11,400**	**£ 11,400**	**£ 11,400**
Supplies and Services					
Equipment	153,463	126,470	126,470	126,470	126,470
Pool Chemicals	39,129	46,000	46,000	46,000	46,000
Uniforms	12,975	16,520	16,520	16,520	16,520
Printing and Stationary	8,381	11,430	11,430	11,430	11,430
Licences	23,877	23,020	23,020	23,020	23,020
Security Services	3,110	3,120	3,120	3,120	3,120
Professional Fees	8,017	8,000	8,000	8,000	8,000
Communications	35,181	17,840	17,840	17,840	17,840

Pendle Borough Council

Assessment of Potential Management Options for Pendle Borough Council Leisure Facilities

	Pendle Leisure				
	23/24	24/25	In-House	LATCo	Agency
	Outturn	Budget	Estimate	Estimate	Estimate
Event Costs	53,851	64,520	64,520	64,520	64,520
Bank Charges	25,953	29,520	29,520	29,520	29,520
Marketing	72,074	62,860	62,860	62,860	87,353
Misc Supplies and Services	44,531	21,280	21,280	21,280	21,280
Total Supplies and Services Costs	**£ 480,542**	**£ 430,580**	**£ 430,580**	**£ 430,580**	**£ 455,073**
Total Expenditure	**£ 5,019,222**	**£ 5,331,410**	**£ 5,827,754**	**£ 5,331,410**	**£ 5,157,603**
Irrecoverable VAT	**£ 129,575**	**£ 75,000**	**£ -**	**£ 75,000**	**£ -**
Net Deficit	**£ 1,886,698**	**£ 1,903,840**	**£ 2,325,184**	**£ 1,844,468**	**£ 1,417,546**
Depreciation	**£ 97,849**	**£ 135,350**	**£ -**	**£ -**	**£ -**
Central Support					
Borough of Pendle	68,250	71,660	71,660	71,660	0
External Operator					374,644
Total Central Support	**£ 68,250**	**£ 71,660**	**£ 71,660**	**£ 71,660**	**£ 374,644**
Deficit After Depreciation and Central Support Costs	**£ 2,052,798**	**£ 2,110,850**	**£ 2,396,844**	**£ 1,916,128**	**£ 1,792,190**
Increase in Deficit of In-House Operation			**£ 285,994**		
Reduction in Deficit of LATCO Operation				**£ 194,722**	
Reduction in Deficit of Outsourcing Via an Agency Model					**£ 318,660**

	Pendle Leisure				
	23/24	**24/25**	**In-House**	**LATCo**	**Agency**
	Outturn	**Budget**	**Estimate**	**Estimate**	**Estimate**
Council Subsidy					
Management Fee	1,207,410	1,657,410			
Energy Support	650,000	353,000			
R&M Recharges	50,898	50,000			
Total Council Subsidy	**£ 1,908,308**	**£ 2,060,410**			
Overall Deficit	**£ 144,490**	**£ 50,440**			

6.31. The financial analysis highlights:

- Existing 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.

6.32. Key findings from 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 fo 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.

6.33. **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

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

6.35. The financial impact of each of the identified operational management models is summarised in Table 16:

Table 16: 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 Budgeted management fee £1,657, 410	**Increased/Reduced PBC management fee**	Cost increases to £1,943,404	Decreases to £1,462,688	Decreases to £1,338,750
Overall deficit £2,060,410	**Overall saving/ cost increase i.e. including PBC subsidy, depreciation and central costs.**	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.

6.36. If PBC decides to change its operational management model it should do this once. If PBC brought the services in-house and then decided to outsource, or set up a LATCo and then decided to outsource there would be a number of implications, including:

- Service disruption
- One or more changes in employee terms and conditions
- Increased cost if the service was brought in-house before implementing an alternative model
- Multiple changes in costs if one and then another model was to be implemented
- Timescales to implement each change

6.37. All the above would impact on the extent and timing of any savings realised.

Capital Investment

6.38. It is understood that Pendle Leisure Trust has invested in the sites they manage on behalf of PBC during the summer of 2024, to include:

- New gym resistance equipment at Pendle Leisure Centre, Colne
- New equipment for classes at West Craven Sports Centre, Barnoldswick
- New Cardio and resistance equipment at Pendle Wavelengths, Nelson

6.39. PBC is also investing in the leisure centres to undertake essential repair and maintenance work including:

- Roof replacement at Pendle Leisure Centre.
- Repairs to the track and new throwing cage at Seedhill Athletics and Fitness Centre.
- New sports hall floor, along with ceiling repairs to the dry side and learner pool at West Craven Sports Centre.
- A new wave chamber and wave machine at Pendle Wavelengths, along with the installation of solar panels and an upgrade of the pool hall glazing that will further improve energy efficiency in the swimming pool hall.

6.40. It is positive that PLT and PBC are investing in the PBC leisure facilities. Further capital investment will be needed moving forward; realistically the only two operational management models which are likely to be able to identify capital to invest are PLT and an outsourced model.

Revenue Funding

6.41. PLT currently attracts significant external funding which goes towards funding its community-based projects. This funding may not be available to other operational management models, depending on funding criteria.

Non- Financial Assessment of the identified Operational Management Models

6.42. In addition to understanding the financial impact of changing the current operational model for its leisure facilities, it is also important to assess the non-financial impacts and implications. Any decision to change the existing model should be made based on both financial and non-financial issues being understood.

6.43. The key non-financial considerations are summarised in Table 17.

Table 17: Summary of non-financial Issues

Non-Financial Issue	Summary of Issues	Implications
Leases	• PLT has leases in place for the leisure portfolio up to the 30th September 2028 and these can only be terminated for Tenant breach (set out in clause 8 of the lease) or the Landlord's Option to Determine (set out in Clause 11 of the lease). **Legal advice should be sought prior to determining any change in operational model.** • Clause 8 details events of default by the Tenant, including breach of covenant or insolvency therefore the only ground on which the Council can terminate all or any of the leases is under Clause 11 • Clause 11 provides that if the premises become, in the reasonable opinion of the Landlord, unfit for occupation or use. • The Trust and leases are protected by the Landlord and Tenant Act 1954 and gives PLT security of tenure.	• Potential inability of PBC to break leases until 2028 i.e. a further 4 years • Timescale required to resolve legal matters • Cost of resolving legal matters • There is likely to be a cost to early termination of the funding agreement between PBC and PLT.
Social Value	• For every £1 invested in PLT £22.99 of SROI is delivered.	• If the decision is taken to change the operational management model for PBC facilities, then it will be important to retain this level of SROI as a minimum and where possible continue to increase it for the benefit of the wider Pendle community.
Staffing	• Staff and their costs, moving forward, are important to understand.	• If the decision is taken to change the operational management model for PBC facilities, then existing staff would be TUPEd over to the new organisation. • This means that initially there is unlikely to be any savings on staff costs, other than how overheads are apportioned. Once the initial TUPE period is over there could be some staff savings.
Pensions	• Any new operational model may be required to take on the existing pensions fund for PLT. •	• This may be considered a risk by leisure operators. • If a LATCo is established the pension liability becomes PBCs responsibility. • For either party this is potentially an additional cost.

Non-Financial Issue	Summary of Issues	Implications
Timescale	• None of the alternative operational models will deliver savings immediately.	• There is likely to be at least 12-14months before any savings at the level discussed.
Risk	• Risk transfer and allocation is important to understand.	• Risk on the operational management of PBC facilities increases under the In-House and LATCo models. • Risk on the operational management of PBC facilities decreases under an outsourced option.
Maintenance and Repair	• Responsibility for repairs and maintenance is likely to remain a shared risk and responsibility under all operational delivery models.	• Capital investment in new/completely refurbished facilities would further reduce risk and cost, particularly under an outsourced or trust delivery option.
Market interest	• It is clear there is now more interest in operating PBC leisure facilities from leisure operators	• Recent contract awards and upcoming procurements are likely to further increase interest by appointed operators; it would be possible to operate an outsourced contract in Pendle with central support elsewhere in the region.

6.44. The non-financial issues will be key elements in the PBC decision-making process moving forward; Ignoring these could have an impact on both feasibility of change and potentially also the costs of an alternative operational management model.

6.45. Although outside the scope of this study there could also be merit in at least exploring the potential for a Pennine Lancashire trust or outsourced contract, to ensure all possibilities have been considered. Either option would be complex in both scale and approach and would require all political parties in each local authority to be aligned, but given each local authority currently has a trust model in place, very likely to be facing similar challenges to those of PBC, these options may be worth exploring.

7. Conclusions and Recommendations

Conclusions

7.1. 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 fo 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.

7.2. **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

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

7.4. 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.

Table 18: 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 Budgeted management fee £1,657, 410	**Increased/Reduced PBC management fee**	Cost increases to £1,943,404	Decreases to £1,462,688	Decreases to £1,338,750
Overall deficit £2,060,410	**Overall saving/cost increase i.e. including PBC subsidy, depreciation and central costs.**	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.

7.5. If PBC decides to change its operational management model it should do this once. If PBC brought the services in-house and then decided to outsource, or set up a LATCo and then decided to outsource there would be a number of implications, including:

- Service disruption
- One or more changes in employee terms and conditions
- Increased cost if the service was brought in-house before implementing an alternative model
- Multiple changes in costs if one and then another model was to be implemented
- Timescales to implement each change

7.6. All the above would impact on the extent and timing of any savings realised.

7.7. The SMT highlights that there is more market interest now in operating an outsourced contract in Pendle borough than there was in 2019.

7.8. There is no interest from parish and town councils in operating PBC leisure facilities unless there is substantial investment in these. If PBC were 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.

7.9. 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 will also deliver significant SROI and attract large amounts of external funding.

7.10. The situation with the existing leases needs to be further explored as these may restrict what PBC is actually able to do, at least in the short-term. There is likely to be a cost to early termination of the funding agreement between PBC and PLT.

7.11. 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.

7.12. 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.

7.13. 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.

7.12 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. Alternatively, prior to progressing any other operational delivery model, the Council could develop a specification setting out what it wants to achieve from its leisure facilities and how it would like these to be managed. It could then ask PLT to cost the delivery of the specified services. This would provide a framework for linking cost to service delivery and should provide the basis for negotiation over cost. It would also enable specific KPIs to be developed which would ensure that PBC service priorities can be measured and evaluated moving forward. If PBC decides to outsource the management of its leisure facilities, it will need a specification anyway, so this work would not be wasted.

7.13 Although it would take a few months to develop a specification and receive costs against this from PBC this approach would provide the opportunity for PBC to understand the costs of various elements of the service as delivered by PLT.

Recommendations

7.14 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.

Disclaimer

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