

LEISURE SERVICES

Executive Summary

A 10-year leisure management contract, with the option for up to two 2-year extensions, was awarded by the Council to Greenwich Leisure Limited (GLL), and sub-contracted to Freedom Leisure, in December 2011. There are no further options to extend the current contract with GLL/Freedom Leisure when it expires on 30 November 2025. With approximately 16 months left, it is necessary to decide the future approach to leisure management.

The Sport, Leisure and Culture Consultancy (SLC), a specialist public leisure sector consultancy, was commissioned by officers earlier this year to independently support an options appraisal on future management options. SLC explored 3 options – reprourement of an external operator; in-house management and local authority trading company (LATC).

The options appraisal demonstrates that the reprourement option delivers the best financial outcome as well as a number of other advantages, including the lowest implementation costs, greater financial certainty, reduced commercial risk, generally higher participation levels, economies of scale and improved scope for innovation.

This report recommends that the overall best value option to the Council is to reprocure a new leisure management contract to commence on 1 December 2025 and seeks authority to progress with the procurement process.

Recommendations

The Executive is requested to:

RESOLVE That

- (i) the Council reprocures an external operator to manage its leisure facilities from 1 December 2025;
- (ii) authority be delegated to the Strategic Director - Communities, in consultation with the Director of Legal and Democratic Services and the Portfolio Holder for Living Well, to commence procurement of the Council's leisure management contract; and
- (iii) authority be delegated to the Strategic Director - Communities, in consultation with the Director of Legal and Democratic Services and the Portfolio Holder for Living Well, to finalise the services, the contract terms and facilities within the scope of the procurement of the Council's leisure management contract.

Reasons for Decision

Reason: To secure a Leisure Operator for the Council's leisure facilities from December 2025 that offers the Council best value and delivers good customer service.

The Executive has the authority to determine the recommendation(s) set out above.

Background Papers: None.

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1.0 Introduction

- 1.1 A 10-year leisure management contract, with the option for up to two 2-year extensions, was awarded by the Council to Greenwich Leisure Limited (GLL), and sub-contracted to Freedom Leisure, in December 2011. The Woking and Guildford partnerships were procured as part of a joint process that required a turnover threshold/scale of organisation that would have been challenging for Freedom Leisure to have met at the time on their own. Freedom Leisure therefore asked GLL to be the “principal” contractor, with Freedom Leisure delivering the contract, as a sub-contractor to them. The bid was written by Freedom Leisure who are fully responsible for its delivery. GLL receive an annual fee from Freedom Leisure for underwriting the original bid and holding the risk of Freedom Leisure failing to perform.
- 1.2 In 2017, the Council decided to extend the existing Leisure Management Contract by the full extension period possible of four years and agreed to the inclusion of various variations to the contract including a range of investments in the facilities (i.e. new flumes at Pool in the Park and changing room upgrades) and the addition of the Sportsbox facility at Hoe Valley School. In September 2018, Woking Park Tennis Courts were removed from the Leisure Contract and returned to the management of Woking Borough Council. In March 2021, the new Eastwood Leisure Centre was added to the contract.
- 1.3 With the above additions, the current management contract contains the following facilities and services:
 - Woking Leisure Centre;
 - Woking Pool in the Park;
 - Woking Sportsbox (at Hoe Valley School);
 - Eastwood Leisure Centre;
 - Management of sports pitch lettings;
 - Booking, cleaning and maintenance of sports pavilions; and
 - Management and delivery of a holiday and summer camp programme.
- 1.4 There are no further options to extend the current contract with GLL/Freedom Leisure when it expires on 30 November 2025. With approximately 16 months left, it is necessary to decide the future approach to leisure management on the basis that due process associated with any course of action will need to commence immediately.
- 1.5 The Sport, Leisure and Culture Consultancy (SLC), a specialist public leisure sector consultancy, was commissioned by officers earlier this year to independently support an options appraisal on future management options. The brief to SLC was to:
 - Support in enabling the Council to fully understand the financial and non-financial implications of different management arrangements for the future operation of four leisure facilities (after the existing contract expires in November 2025);
 - Establishing evaluation criteria for the appraisal of options which align with the aims and objectives of the Council;
 - Development of a robust financial model which sets out the relative income and expenditure projections of the different management model options, based upon a series of clear assumptions and industry benchmarks;
 - Assessment of the financial implications of different management model options against the agreed criteria. This will need to take into account factors such as: potential for improved revenue savings; risk transfer; medium term financial planning or degree of financial certainty; access to economies of scale to drive income and reduce operational costs; set-up costs and lead-in time; potential for VAT and NNDR (business rates) exemption; access to capital funding and access to external revenue funding;
 - Assessment of the wider, non-financial benefits and disbenefits of different management models to inform the assessment of non-financial criteria;

- Consideration of the legal implications of different management model options including any key risks;
- Assessment and scoring of management models against both the financial and non-financial criteria including commentary to support the assessment;
- Timeframes for the implementation of the preferred management model, linked to internal and external resource requirements.

1.6 This report summarises the findings of the options appraisal and recommends that the overall best value option to the Council is to reprocure a new leisure management contract to commence on 1 December 2025.

2.0 Current Contract

2.1 In general, Freedom Leisure have achieved the Key Performance Indicators set out in the Leisure Partnership Agreement and continue to work in partnership with the Council. Freedom Leisure is aware and being supportive in the identification of future savings and the need to work towards a financially neutral position in the provision of leisure services.

2.2 Under the terms of the contract, a net income (management fee) is paid to the Council towards its costs of leisure provision, including some energy costs and large-scale works. However, due to the impact of the Covid-19 pandemic, the Council provided a financial subsidy to Freedom Leisure in the 2020/21 financial year.

2.3 The leisure contract with Freedom Leisure has performed well up to and post the Covid-19 pandemic. In 2023/24, there were a total of 1,247,823 visits to the Council's 4 leisure facilities with approximately 6,000 gym memberships.

2.4 The contract as a whole has seen significant growth from circa 639,000 visits in 2021/22 to over 1.2 million in 2023/24. This growth is linked to two main factors. Firstly, the opening of Eastwood Leisure Centre in 2021 has seen a boost of over 270,000 visitors and does not appear to have taken away business from the other Woking leisure facilities. Secondly, the recovery following Covid-19 has continued with more people returning to leisure centres.

2.5 Freedom Leisure deliver an extensive Active Communities Programme across the Borough targeting those areas with the highest levels of deprivation. The team have worked with Council officers and partners in the NHS to deliver a range of health products, such as, Covid Recovery, GP referral and Pulmonary and Cardiac Rehab. Further to this a range of classes around weight loss, diabetes management and falls prevention are offered.

3.0 Options Appraisal

3.1 The scope of facilities included within the leisure management options appraisal includes:

- Woking Sportsbox
- Woking Leisure Centre
- Eastwood Leisure Centre
- Pool in The Park

3.2 In addition to the facilities listed above, the existing contract with Freedom Leisure also includes the management of bookings for pitches and pavilions across the Borough. However, the Council's strategy is to explore alternative arrangements for the future management of those facilities linked to a community asset transfer approach. Therefore, pitches and pavilions were excluded from the scope of the options appraisal.

3.3 Three core management options have been considered for the services:

- **Option 1 - Reprourement of an external operator partner** – This is the most common leisure management model amongst local authorities in England and the approach that has been applied in Woking since 2011. Under this option, facilities and services are operated on behalf of the Council by a specialist external operator partner. The arrangement is managed under the terms of a contract, which includes a detailed service specification. The operator is responsible for employing staff and takes full commercial risk on income. The majority of expenditure risk is also transferred to the operator, save for some shared risk on maintenance and energy.
- **Option 2 - In-house management** – This approach would involve transferring the leisure services back to in-house management following the current outsourcing arrangements. Existing staff would transfer under TUPE to the Council who would then employ the staff directly. The Council would receive all of the income generated through the facilities and be responsible for all costs.
- **Option 3 - Local Authority Trading Company (LATC)** – This would involve establishment of an “arm’s length” organisation set up by the Council to manage the facilities and services under a service level agreement (or similar). Staff would transfer to the LATC which would receive all of the income generated through the facilities and be responsible for all costs.

3.4 SLC evaluated each option against a set of weighted financial and non-financial criteria agreed with Council officers.

3.5 SLC has undertaken high-level financial modelling of the three management model options above, based on financial information provided by the Council’s current leisure operator, Freedom Leisure for the period April 2023 to December 2023 and pro-rated for a full 12-month period. The modelling provides information on the estimated income, expenditure and overall revenue implications of each management model. This is designed to enable a clear comparison of the relative financial strengths and weaknesses of different management models, rather than being used as a forecast of service costs in the future. Importantly, the assumptions do not take account of the recent price rises or the ongoing recovery in participation levels after the pandemic.

3.6 From a financial perspective, the most favourable model would be to re-procure an external operator partner to deliver the services. The estimated management fee payment generated from the contract under this model is circa £1.1M per annum payment to the Council (based on 2022/23 costs and income). This compares with a management fee payment to the Council of circa £339K per annum under an LATC and a subsidy of circa £342K per annum under in-house management.

3.7 The options appraisal demonstrates that reprourement of an external operator (Option 1) has a number of other advantages, including the lowest implementation costs, greater financial certainty, reduced commercial risk, generally higher participation levels, economies of scale and improved scope for innovation.

3.8 The main advantages of in-house management (Option 2) and an LATC (Option 3) are greater control over the service offer, ability to target resources to certain priority groups and flexibility to vary the scope of the service. However, the costs of implementation would be significant and the Council lacks the in-house skills and capacity to deliver this scale of change, particularly within the time remaining. SLC’s knowledge of other local authorities who have been through this process suggests that a period of at least 18 months would be required.

- 3.9 With a total score of 71%, reprocurement of an external operator partner (Option 1) has been identified as the optimal management option for future delivery of the service. This is compared with a score of 38% for both the in-house and LATC options.
- 3.10 Summary feedback from recent market testing and anecdotal feedback from operators suggests the majority of the more established operators are actively interested in bidding for new contract opportunities. Most bidders are currently unwilling to accept full risk on future energy price increases and this is a key factor in determining whether they bid on a new contract opportunity. Operators typically prefer maintenance risk to be shared with the local authority, but are willing to take full commercial risk on income. Operators prefer profit share rather than income share and strongly prefer to have freedom on setting prices and flexibility on programming.
- 3.11 In order to attract good interest, a contract length of a minimum of 10 years is likely to be required. SLC typically recommend that Councils allow for an extension of up to 5 years, or two separate extensions, each of up to 5 years, particularly if further investment is planned through the term of the contract. Providing for an extension (by mutual consent) ensures that the authority has the flexibility to extend without any risk of challenge.
- 3.12 The Management Options Appraisal has identified the procurement of a new Leisure Management Contract with an external leisure operator as being the preferred option. It is recommended that the Strategic Director - Communities, in consultation with the Director of Legal and Democratic Services and the Portfolio Holder for Living Well, be authorised to commence the reprocurement of the Council's leisure management contract (Option 1) and to finalise the services, the contract terms and facilities within the scope of the procurement.

4.0 Procurement Process

- 4.1 SLC typically advises Councils to begin a procurement programme a minimum of 18 months prior to the expiry of their existing contract. There are less than 17 months remaining before the current contract expires and therefore commencing the procurement process needs to happen soon and at pace.
- 4.2 The outline procurement timeline is as follows:
- Pre-procurement (developing procurement strategy; drafting specification and tender document; preparing draft contract, etc.) – August 2024 – November 2024
 - Procurement Process – November 2024 – August 2025
 - Mobilisation – September 2025 – November 2025
 - Contract Start – 1 December 2025

5.0 Corporate Strategy

- 5.1 The Council's Working for All Strategy 2022-2027 includes the objective of promoting "healthier communities", including the aim to "encourage and increase active lifestyles and participation through the provision of varied cultural and sporting opportunities and amenities".
- 5.2 The option to reprocure an external leisure operator provides the Council the best opportunity to meet this objective, whilst also delivering the most financially sustainable approach.

6.0 Implications

Finance and Risk

- 6.1 As outlined above, the procurement of an external leisure operator is the mostly financially advantageous option. Working towards a cost neutral overall position for leisure is essential. Running leisure more commercially remains the focus to maximise the surplus available to help support the utility and maintenance costs.
- 6.2 It is anticipated that the management fee income will be sufficient to cover the Council's costs relating to energy and maintenance from 2029/30 financial year when the outstanding capital loans are fully repaid to ThamesWey.
- 6.3 There is likely to be a one-off cost of circa £60,000 for specialist consultancy support to deliver the procurement process, plus potential external legal support costs of up to £35,000.
- 6.4 If the Council was minded to pursue an alternative option to reprocurement of an external operator, one-off costs of circa £900,000 are estimated to be required to mobilise any transfer of the service in-house or to an LATC. This would be in addition to the increased, ongoing revenue cost of these options. The Council would also need to consider the one-off legal costs (and officer time) of establishing an LATC, which may potentially be circa £100,000.
- 6.5 A full risk register for the project will be developed and monitored by the Project Board. The key risks identified to date are:

Risk	Mitigation
Lack of capacity to deliver.	<ul style="list-style-type: none"> • Establishment of Project Board • Engaging external procurement and legal expertise (as required)
Insufficient Market Interest	<ul style="list-style-type: none"> • Specialist external advice on procurement strategy. • Aligning process with other local reprocurement activity to increase geographical appeal.
Tight timescale to complete reprocurement	<ul style="list-style-type: none"> • Establish project team • Secure external procurement expertise to support process
Tenders do not deliver the expected level of management fee income	<ul style="list-style-type: none"> • Compile robust and accurate data to reflect the strength of the financial performance of the current contract. • Ensure clear and up-to-date information relating to buildings and utility expectations is available, including condition survey data compiled last year.

Equalities and Human Resources

- 6.6 A project board will be established involving colleagues from a wide range of services, including Legal, Finance, HR, Procurement and Property Services.
- 6.7 Consultation with Freedom Leisure staff and trade unions will take place and will be in line with the requirements related to any TUPE transfer.
- 6.8 As the option proposed is a continuation of the current model of delivering leisure services in Woking, there are no equality impacts anticipated from this decision. However, an Equalities

Impact Assessment will be undertaken on the service specification in order that this is kept under review.

Legal

- 6.9 SLC partnered with law firm Trowers & Hamlins LLP to obtain an expert view of the legal implications arising from each of the core management options being considered.
- 6.10 Provision of leisure activities is now (since March 2023) considered "non-business" by HMRC. VAT paid on delivering these activities can now be recovered from HMRC. As a result of this change to VAT treatment, a number of local authorities and most of the private sector operators of local authority leisure facilities are exploring the appointment of operators as an agent for the relevant council. This would mean the relevant council would itself become "the principal" that provides leisure services to the public.
- 6.11 The concept of principal and agent in VAT is that where an organisation acts as the agent of a principal, the principal is still making and receiving the supplies of goods and services, with the agent simply arranging them. For outsourced leisure services (whether to a third-party operator or to a LATC), an agency model would mean that as the supplies of the leisure services would still be made by the local authority (as principal), the local authority's favourable VAT status would apply both in terms of the non-business treatment of the income and the ability to recover VAT on the related expenditure (most significantly, the fees charged by the agent for the arrangement/agency services).
- 6.12 The Agency Model is a new innovation in the local authority leisure market. The London Borough of Hillingdon became the first authority to adopt this model in March 2024. The arrangement remains 'untested' with HMRC and they have yet to provide any formal advice or guidance on this arrangement.
- 6.13 The Council will need to establish its position on the agency model as part of the pre-procurement phase of the project. This would include consideration of the potential risks and implications of allowing for such a model. If the Council is minded to allow for an agency model, then it will then need to consider the mechanisms to incorporate it within the contract and to manage it through the tender process.

7.0 Engagement and Consultation

- 7.1 During summer and autumn 2023, the Council undertook two consultation and engagement exercises with residents around the future of its discretionary services, including leisure facilities.
- 7.2 The consultation on the potential closure of the Pool in the Park is of particular relevance to this report. There was strong community support to keep the pool facility open. In order to achieve substantial savings in the running of Pool in the Park, the majority of respondents (57%) favoured investigating price increases. Prices have subsequently been increased to a level comparable with neighbouring boroughs and participation levels remain strong.
- 7.3 The reprocurement option includes the Pool in the Park and offers the most financially sustainable option for the future of the Council's leisure facilities.

REPORT ENDS