

Role and Provision of Council-Owned Local Facilities Scrutiny Review

Final Report – February 2011

1. Introduction

The Role and Provision of Council Owned Local Facilities review was approved as a part of the councils scrutiny programme in May 2010. The review was commissioned by the Executive and overseen by the Scrutiny Sub-Committee which is responsible for the scrutiny programme.

The review has been undertaken by a panel of five elected Members supported by an officer team. The review panel consisted of:

Scrutiny Review Members

- Councillor Gillian Reuby (Chairman)
- Councillor Charlotte MacCaul
- Councillor Jenny Samper
- Councillor Ian Thomas
- Councillor John Wratten

Scrutiny Review Officers

- Dan Hamlin (Lead Officer)
- David Ford

Other council officers also gave their time as witnesses and provided data for the review. Witnesses who gave evidence to the panel are set out at the end of the report. Information was also gathered outside of the panel's formal meetings and written evidence provided.

Information gathering from the public

Publicity in the local press and District Life magazine and on the council's dedicated scrutiny website was used to publicise the review.

2. Reason for review

The importance of this issue is highlighted by the break option in 2012 for the Active Life contract, which provides the council with an opportunity to review its leisure provision arrangements. Uncertainty regarding Active Life's future post 2012 is making it difficult for them to secure funding for investment in the council's leisure centres and improve service delivery. There is an urgent requirement to establish a strategy for the way forward regarding council leisure provision post 2012. The main concern of the review was therefore to consider what the council's role should be in delivering overall indoor leisure provision and its stated leisure objectives.

The scope of the review was endorsed by the Scrutiny Sub-Committee at its meeting on 16 June 2010. The scope is set out in full at Appendix 1.

As part of this process, the council also engaged specialist consultants and consulted other leisure providers in the district and elsewhere. The review also drew on consultancy work carried out for Active Life.

As part of the background to the review, the scrutiny panel considered the national and local context of council leisure provision together with the different types of facilities and operating models available.

3. National Context

Generally, the fitness market divides between expensive private sports and health clubs, and local leisure centres subsidised by local authorities to provide opportunities for exercise. The various types of leisure provider models are dealt with in more detail later in the report.

Some estimates suggest that consumers spend £3.5bn a year on basic participation costs for both sport and fitness, including both annual subscriptions and ad hoc fees ('pay per play'). This is less than 0.5% of total household expenditure, partly because of local authorities subsidising local leisure facilities.

In the year ending September 2009, 37.4% of adults used some sort of fitness-related facility (ranging from the workplace gym to a local swimming pool). Major providers including David Lloyd Leisure, Virgin Active and Esporta, offer luxury facilities, although more people are opting for a more affordable option at chains such as Fitness First, DA Sports or franchised groups of small gyms such as the women-only Curves network.

In the public sector, local authorities have traditionally been major providers and operators of sports facilities in the UK. Excluding educational provision, net expenditure on revenue support for sport was over £1.45 billion in England and Wales in 2008/09. There was a further £450 million on capital expenditure.¹

While the private sector primarily provides leisure facilities for a financial return, the public sector looks to consider broader objectives such as health promotion, economic development or tackling deprivation. In social well being terms, the range of leisure opportunities available in an area can be regarded as an important indicator of the quality of life.

The compulsory competitive tendering legislation of the late 1980s introduced local authorities to a competitive tendering environment which had a significant impact on the operation of leisure and other facilities such as parks and open spaces. Local authority run centres were subjected to competition from a newly formed leisure management contractors.

¹ CIPFA Culture, Sport and Recreation Statistics 2008-09

Since that time, when there were a variety of contractors, there have been organisational failures and the market has tended to consolidate to fewer and larger companies.

In the future, public sector sports providers may struggle to cope during a period of austerity. Overcapacity in the provision of private clubs may lead to damaging price wars, although there may be benefits to more competitively priced provision as affordability becomes an issue for many. Long-term, however, the fitness sector should benefit from demands for healthy lifestyles among the `Baby Boom' generation moving towards retirement but keen on maintaining an active lifestyle.² Whilst tackling rising levels of obesity and improving activity levels will continue to be a major challenge. Future concerns include the fact that, although 37.4% of UK adults use fitness facilities then the majority do not engage in sport or fitness.

The following figures show local government gross expenditure in 2008/2009, broken down by services area³.

	England	Wales
Recreation and Sport	£1,312 million	£166 million
Open spaces	£882 million	£75 million
Tourism	£151 million	£11 million
Culture and Heritage	£678 million	£72 million

Current forecasts indicate that consumer expenditure on sport participation will decline with the higher levels of competition and the impact of spending cuts finding their way into the wider economy, through higher prices, reduced subscriptions levels and public sector support grants. Although maintaining membership and fighting attrition is a key goal for fitness facilities, diversification through adding new activities is a major part of many sports organisation's approach to increasing income.

Models for leisure facilities

There are a number of methods of managing sports and leisure facilities. The main options are summarised below:

- In house direct delivery;
- Management through a trust;
- Partnership with a private contractor;
- private company owned and managed;
- sports club owned and managed;
- dual use facilities, (both private and state partnerships including universities)

² Keynote Leisure: Health Clubs and Leisure Centres – Market Report 2010

³ CIPFA Culture, Sport and Recreation Statistics

Other types of facilities involved in sports provision such as village halls and those generated by the Private Finance Initiative also exist.

In-house direct delivery – where the council directly manages the sports and recreation facility as a main service or through a direct service organisation. In this model, expenditure, management and pricing remain with the council, who also carries all the risk. In Kent, only Tonbridge and Malling borough council manage their indoor leisure services directly.

Management through a trust – The most popular option for councils and the current mode of delivery for the city council. It involves the creation of an arms length company independent of the council, to manage sports and leisure delivery. Although independent, the council provides the trust with a grant and appoints elected Members to the trust's board. The trust model also has VAT and NNDR advantages. Usually operating under lease with a grant from the providing authority, trusts are not for profit organisations with a social remit and surpluses reinvested in the business. This is the current model for Active Life.

Partnership with a private contractor (Hybrid Trust) – In this model a private company take on the management of staff and facilities, but not the buildings or major plant systems. This is usually done through a fixed term contract. For the duration of the contract, the company would look to generate profit by increasing income and reducing costs. The council pays a management fee to the contractor to underwrite an operational deficit. In some cases a fee or profit share is paid. National examples include Fusion Leisure and Nexus Group who run a number of facilities for different councils.

Dual-use facilities – Facilities situated on school or other educational premises which are available for public use. Here, the operational management works with the school and governing body to facilitate usage by the different groups, for example the school making up the predominantly daytime use and the community would fit around this and make up the main twilight and evening use. Operational management depends on the size of the school and associated facilities and the management capacity of the school in question. Some facilities are wholly managed by the school, whilst in larger



1. Dual use facility - Body and Mind Canterbury

facilities; the management may be delivered by a third party company operating a service level agreement with the school. The review panel undertook site visits to dual-use facilities at Kings School Leisure Centre and Body and Mind fitness at Canterbury Academy. Active Life themselves are involved with provision at Whitstable Community College and Herne Bay High School.

Private company owned and managed – In this model the leisure facilities, e.g. gym, swimming pool, squash courts and fitness class areas operate under the management of a private club, often as part of a major parent company. Membership is set on a number of levels, for example, 'pay as you go' to 'all inclusive'. In the Canterbury district, a major

national sports and leisure company DW sports, has recently opened a facility in Canterbury at Sturry.

Sports club owned and managed – In this model facilities are owned and managed by private club which may host several sport specific clubs on the same site. Participation is through membership of the club or through external hire, or where a particular club offers training for non-member wishing to take part in a particular sport. A notable local example is the Polo Farm sports club on the outskirts of Canterbury.

Benefits of Providing Facilities and Opportunities

On a national level, broader social objectives are part of the government's overall strategy⁴ to increase levels of physical activity and improve the nation's health by combating the trend toward more sedentary lifestyles and to contribute toward greater involvement in sport.

Successive government reports highlight health benefits as the clearest advantage of encouraging sport and physical activity. Introducing people to a wide range of sports and activities early on encourages them to stay 'sports literate' for life. Reports have also argued for resources to be targeted at children and young people, women and older people, particularly those who live in economically disadvantaged areas, in order to encourage participation. Previous governments have argued that local councils should be set targets to achieve health benefits through sport and other activities, whilst the current government, although taking a less target driven approach, is moving the responsibility for public health to councils from the NHS, whilst continuing the emphasis on targeted help for the poorest areas⁵.

Councils have no statutory duty to provide leisure services but most choose to provide them as a discretionary service. The Local Government Act 2000 gives councils the power to promote 'economic, social or environmental wellbeing' and the links between the wellbeing of communities and physical activity are widely understood. So, council's promotion of healthy lifestyles and 'active leisure' helps them to fulfil their wellbeing duties and meet the expectations of their residents.

Leisure provision strategies

As part of an overall approach to the provision and management of leisure facilities, most authorities develop a strategy setting out the short and long term ambitions. It is normal for strategies to be reviewed at least every five years in line with changing corporate objectives. For example the Canterbury's corporate plan is reviewed on a four-yearly cycle. These strategies and plans are backed up by output measures, for example performance against measures of activity or participation.

⁴ *Game Plan: A strategy for delivering Government's sport and physical activity objectives* - Department for Culture Media and Sport - 2002

⁵ BBC News online: '*The Battle to Encourage Healthier Lifestyles*' 29 November 2010.
<http://www.bbc.co.uk/news/health-11810169>

To ascertain the activity levels of residents, councils make use of the Active People Survey. This extensive survey was commissioned by Sport England published its first full results in 2007. This annual survey continued until October 2010. Canterbury's performance against this PI is set out later in the report.

4. National service delivery trends for council facilities

There are a number of possible ways of delivering council sports and recreation facilities and in the past the majority of service delivery was through a dedicated in-house provider. For the last 25 years there has been a move toward management of facilities by private contractors and not for profit trusts, which is the more common arrangement. Over time the delivery model for sports facilities has changed. Fig 1 shows the general trends between 2006 and 2010 and the rise in popularity of school, community and trust management arrangements over in-house arrangements.

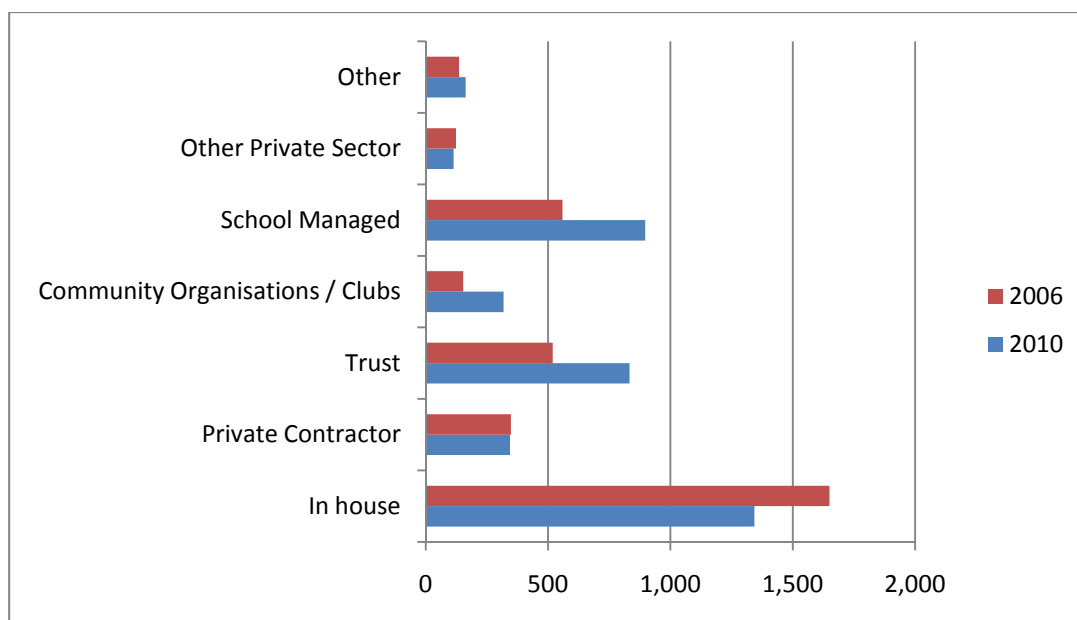


Fig 1: 2010 Breakdown of management of facilities with public access (pay and play / membership use)
Source: Leisure Database Company

Partnership Working

To help address the national trends in participation in leisure and fitness activities, local government, education, health and the private sector have for the past few years worked closely together to establish common objectives such as increasing the levels of activity and exercise in a given area. Partnerships look to increase resources and achieve economies of scale which means that initiatives are more cost effective as a result. In some places, these partnerships have become formalised as 'local physical activity alliances'. In many cases the two main partners for a local authority will be the local health services. In Canterbury, the council's main sports partnership body jointly managed with NHS Eastern and Coastal Kent is Active Canterbury (www.activecanterbury.org).

Active Canterbury is a partnership body consisting of representatives from across the sport and leisure sector including the council, KCC, University Of Kent, Christ Church, E&CK PCT, Polo Farm, Canterbury Academy, Herne Bay High School, Kent CCC and Active Life. The aim of the partnership is to act as an advocate for and promote the benefits of sport. The group has been responsible for the development of programmes such as Get Active Feel Alive, the development of the Active Canterbury website and the Sports Awards, which celebrate sporting achievement at all levels across the district.

Trust Partnerships

Examples of trust partnerships include:

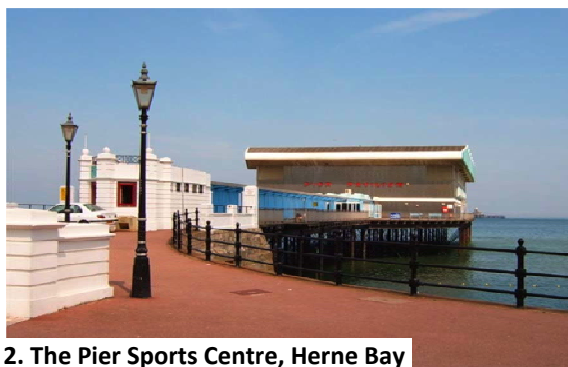
- *Fusion Leisure Ltd* – which operates facilities on behalf of a range of local authorities including Oxford City Council, the London Boroughs of Lambeth, Croydon, and Hillingdon and Mole Valley District Council.
- *South Oxfordshire Leisure Limited* – which also operates facilities on behalf of Daventry District Council
- *Greenwich Leisure* – this is the best known trust partner which now operates facilities on behalf of seventeen other London Boroughs;
- *Wigan Leisure and Culture Trust* – which has recently won a contract to manage Abbey and Tadcaster Leisure Centres and Selby Park on behalf of Selby District Council.
- *North Country Leisure Ltd* - having started life in Tynedale, now operates contracts in Alnwick and Copeland.

5. Council leisure facility arrangements in the Canterbury District

Active Life

The management of the council's five leisure centres transferred to an independent Trust (Active Life Ltd) on 1 April 2002. The Trust was set up as a Company Limited by Guarantee and became a registered charity in January 2003. The primary objective of the transfer was to deliver savings, safeguard the effective delivery of the services and to open opportunities for service improvement, inward investment and development.

Profile



2. The Pier Sports Centre, Herne Bay

Active Life currently operates the following leisure facilities on behalf of Canterbury City Council: The Kingsmead Centre in Canterbury.

The Pier Sports Centre and the Herons Swimming pool in Herne Bay

Whitstable Swimming Pool and Whitstable Sports Centre.

In addition to the sports hall at Whitstable Community College, Active Life will also manage the new gym facilities. In 2011, the Pier Sports Centre will close with fitness, dance and gym facilities transferring to an



4. Whitstable Sports Centre



3. Kingsmead Centre - Canterbury

improved Herons Centre, whilst the sports hall transfers a new facility at Herne Bay High School. The Trust headquarters are in a separate building in Whitstable. As with most leisure providers, there are a wide range of activities on offer at each centre including Swimming, Gymnasiums, Dance and Fitness Classes, Roller Skating, 5-a-side Football and Swimming Lessons.

The main elements of the Trust's strategy has been to increase participation and income whilst reducing costs, and to counter what they see as saturation and limited income potential in the current leisure market, Active Life are currently considering enterprises in areas such as soft play, budget gym provision and targeted youth and family programming.

There were substantial tax (NNDR and VAT) savings for the council derived from the transfer. To date these savings amount to over £2m and now continue at an estimated £500,000 per year. Since transfer, Active Life has increased admissions and improved turnover to generate extra funds. It has also invested £1.34m in capital projects. Further investment has occurred via a £600,000 loan from the council. This was used to support the delivery of essential refurbishments and energy efficiency improvements across the centres, particularly at the Kingsmead Leisure Centre in Canterbury. Active Life's energy costs have increased by £200,000 per annum. Sharply rising energy costs over the past couple of years is a common problem for many leisure trusts and private sector operators.

Finances

The council management fee paid to Active Life is part of a 4-year funding arrangement up to 2011/12 where the council support grant is limited to RPI increases. Over the past 4 years the management fee has been:

- 2007/08 - £274,435,
- 2008/09 - £284,300,
- 2009/10 - £283,861
- 2010/11 - £266,100 (budgeted total spend).

Other than the management fee, the council has a 2010/11 budget of £174,500 for building maintenance across the 5 centres. Under the terms of the leases, the council as landlord is responsible for structural maintenance, major plant and repairs, whilst Active Life is responsible for day-to-day maintenance. Other areas of expenditure include insurance (buildings and building related property and content), capital charges and income. This gives a total council whole life cost support for Active Life of approximately £700K per annum.

Financially, Active Life is currently seeking to maintain a service that provides value for money and to maintain income by delivering increased participation. At the end of 2009, although the average spend per user had risen steadily since 2003 and the number of health promotion sessions had also grown, admissions had fallen and the trust was running an operational deficit of £42,193 on a turnover of £3.4 million. Although this fall was attributable in part to updating works at three of the major trust facilities which affect income in the short term, the trust remains reliant on the council for financial support, with a subsidy per user of 31.5p. Average spend per customer between 2002/3 and 2009 has increased from £2.95 to £3.92. Council subsidy per visit has reduced 34p per visit to 27p over the same period.

6. Council Leisure Objectives

The council sets out a number of objectives relating to leisure under the banner of '*Promoting participation in culture, leisure and play by all*' theme in the Corporate Plan which covers the period 2008 to 2012. Objectives under the theme include the development of a community football centre in Canterbury, a community sports centre at Herne Bay and a commitment to maximise improvements to sports facilities in the district provided by others where tangible benefits to priority communities can be secured.

The remaining objective is to increase participation levels on sport and physical activity to improve health and reduce obesity levels.

Sports provision

Under Corporate Plan objective 'Increase participation level in sport and physical activity to improve health and reduce obesity levels' the council actions relating to sport are:

- 1. Through Active Canterbury, develop joint programmes and initiatives that encourage participation in sport and physical activity*
- 2. Support new opportunities for physical activity by linking sport and the arts*

The council's Sports Development Team aims to improve access to and develop more interest in sport and physical activity, working with a range of partners including Active Life.

The team organises projects, programmes and competitions in order to increase levels of participation to all sectors of the community. The team offer a wide range of services, advice and knowledge to residents, clubs, schools and organisations within the district to promote a healthy and active lifestyle.

In terms of output, progress is measured by an increase in the active participation using an active people definition and benchmark and looks for a 4% increase by 2012. Active participation levels are surveyed on a national level. The measurements consider the percentage of the adult population the regularly participates in sport and active recreation.

	Canterbury	Kent	All England
Active People Survey 1 (2005/6)	20.6%	20.2%	21.8%
Active People Survey 2 (2007/8)	20.7%	20.5%	22.4%
⁶ Active People Survey 3 (2008/9)	23.6%		

The Active People measure KPI1 which measures the participation rates and intensity of activity puts Canterbury at 25.1%, higher than the South east (22.9%) and all England (21.6%). This is supported by Audit Commission data, measuring Canterbury against local authorities in England and the council's geographic neighbours, this data shows that whilst the council spending per head on Sports and Recreation facilities and Sports and Community recreation is amongst the lowest, levels of participation are relatively high.⁷

Active Life play a significant role in delivering against this target. The council measures Active Life performance through the number of swims and visits to leisure centres. Since performance was first measured in 2006/07 the number of visits has dropped slightly. The figures for 2009/10 have been influenced in part by the works being carried out at the Herons and Whitstable centres.

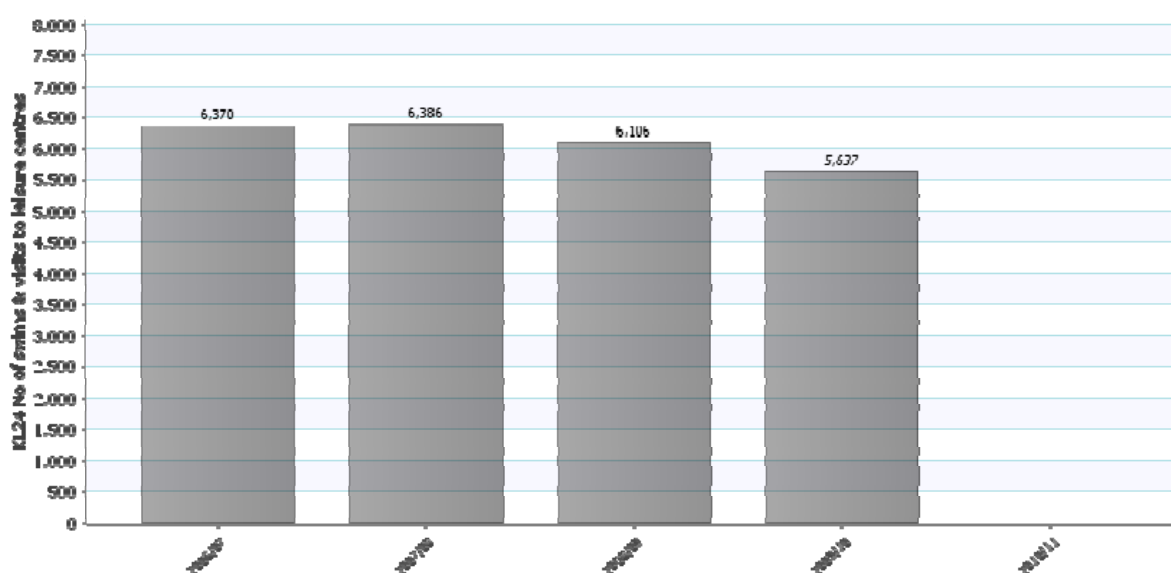


Fig 2: Number of swims & visits to leisure centres. (Source: Canterbury City Council).

⁶ Nationally, due to differing sample sizes, the Active People surveys 2 and 3 were combined to provide a single figure. Canterbury figures have been disaggregated locally.

⁷ Active People survey 2008/09 and Audit Commission VFM profile data 2008/09

Active Life work in partnership with the council to deliver targeted programmes aimed to increase participation. An example of this is the 'Get Active Feel Alive' programme, a partnership created between the PCT and the Council in 2006 with Active Life joining in 2007, together with the School Sports Partnership. This has the objectives of promoting healthy lifestyles and improving activity levels. The 'Dive' programme is a partnership between the council and Active Life to provide an exclusive youth night for young people aged 12 to 17 years. It is held at Kingsmead Leisure Centre using the centre at a reduced rate and gives local communities the chance to try out different activities for free. The outcomes for this programme⁸ were that more people from the target groups undertook sporting activity as a result of the campaign with most citing leisure centres as their primary choice for sporting activity. Other targeted work involves groups such as older people, families and those with special needs, such as the MEND programme targeted at overweight children.

Active Life also works closely with the NHS to facilitate rehabilitative referral for cardiac patients and other groups, who as part of their rehabilitation attend the leisure centres at a reduced rate. The main outputs being improved recovery and higher post-condition levels of activity. Although the Health Authority does not fund the placements, Active Life gains in terms of increased usage and longer term membership.

Active Life Objectives

Active Life's stated objectives are:⁹

- To achieve admissions of 907,000 per annum
- To maintain Health promotion sessions at 52 per week
- To maintain turnover at £3.45 million
- To reduce energy consumption by 1% at each centre
- To achieve customer satisfaction ratings within the range of 7.5 – 8.0 at each centre

In evidence to the panel Active Life also cited school swimming and club swimming as areas where the trust provided essential services to the community in contrast to other local providers. This reflects in the trust's objectives to increase participation in active recreation, ensuring equality of opportunity and access, contributing to the health and wellbeing of the district's residents. In 2008 Active Life set clear performance targets relating to admissions, health promotion, turnover, customer satisfaction and energy consumption. In 2009 however, objectives for 2010 were in the trusts words, 'cautious' and have involved looking to improve the quality of service and maintaining income whilst waiting for the new facilities to come on-line. The report does mention the main drive for growth going forward will be developing sites and activity outside the current portfolio. This objective was also restated when Active Life gave evidence to the panel.

The trust also told the panel that planned improvements in their current stock was the best option for countering competition from the private sector, together with expansion in related

⁸ Christchurch University evaluation 2009

⁹ Active Life annual report 2009-10

areas such as soft play to generate income which would help to reduce the level of direct grant support.

7. Other local leisure providers

Canterbury District

In the coastal towns, the council currently has two facilities, and those in Herne Bay will benefit from investment. At Whitstable, the pool is well used and the gym capacity has been increased to meet demand. The new facilities at Whitstable Community College will soon be open. At Herne Bay the closure of the Pier Sports Centre will be offset by the new facilities opening up at Herne Bay High and the upgraded facilities at Herons centre.



6. Kings School Recreation Centre



5. DW Sports and Fitness

Whilst private sector competition to council-run facilities in Whitstable and Herne Bay is limited, in Canterbury, the Kingsmead facility has two similar facilities in close proximity, Kings School and DW Sports, part of the DW Sports Fitness chain¹⁰. This provides an element of competition for Active Life and indications are that whilst

Kings School Sports facility is near capacity for membership, DW sports and has some way to go before it reaches capacity.

Sevenoaks district

The member panel also undertook a visit to another Kent trust, Sencio Leisure, who manages sports facilities on behalf of Sevenoaks District Council as well as a facility in Cambridge.



7. Sencio Leisure facility at Sevenoaks



Sencio was set up in a similar way to Active Life and faces similar levels of competition in their local market. In evidence to the panel, Sencio

¹⁰ Prior to the opening of a DW facility in Canterbury, under the JJB brand, the group of clubs had been the fastest growing club brand of the decade, reaching 250,000 members by 2008.

stated that their objectives were to provide community focussed leisure within a financially viable framework. This is reflected in the income for Sencio which is derived in the main from its trading activity supported by a small grant. The trust is assuming that this grant will be gradually eliminated over the next couple of years.

Sencio are looking to adjust their product offering in the face of changes to the leisure market with the emphasis on generating increased income and becoming self-sufficient. Although Sencio commented to the panel that they intend to maintain their community focus through schools outreach, sports development and work with Age Concern. They are also looking to gain custom from the private sector and invest in their facilities to reduce overhead cost and take advantage of opportunities that present themselves as the economy eventually recovers.

8. Existing model of service delivery and current economic climate

National Trends

Although the UK leisure market is one of the largest in Europe in terms of the number of clubs and members, like many parts of the economy it continues to face significant change. This is part due in changes in society and financial changes in the current economic climate. The coalition government has stated that its priority objective of reducing the public budget deficit during the life of the current parliament. This will mean large reductions in public expenditure, especially in local government which has been one of the sectors hardest hit. Additionally the leisure centre market is very mature and may be approaching saturation.

As stated earlier, the general market for sport and fitness has been driven by a push for healthier lifestyles, although it has been suggested that the population is segregating between those considered as health conscious who have driven the private sector market growth and those who have no involvement at all. This highlights the lack of exercise in modern lifestyles and the consequent growth in obesity amongst all ages¹¹. Although this may provide an opportunity for health clubs, especially those with prices within reach of the less affluent.¹²

In terms of the overall fitness market, participation is subject to regional variations, geographic distribution and relative economic affluence. The South East has the third highest level of visits to fitness facilities, although overall consumer spending on sports and fitness has declined slightly overall between 2006 and 2009, although ad hoc pay as you go spending has not fallen as fast as subscription expenditure. Although fitness industry reports state that total membership of clubs and gyms is up 0.4% on the year to March 2010.¹³

Consumer trends, a move away from competitive and equipped sport to simpler, fitness orientated activities have been identified as well as home based fitness and non centre

¹¹ In the UK it is estimated that in 2007, 60.8% of adults and 31.1% of children were overweight or obese, of these, 24% of adults and 16.8% of children were obese and that as many as 30,000 people die prematurely every year from obesity-related conditions.

¹² Keynote - leisure market SWOT analysis

¹³ 'State of UK Fitness Industry report, 2010'. Leisure Database Company.

based activities such as cycling, walking and running. It is suggested this is due to busier lifestyles, a movement away from competitive sport to swimming and cycling, higher standards of living, enabling the growth of private health clubs in competition against local leisure centres and government drives against poor public health and obesity to have accessible facilities to allow a wide range of people to take more exercise.

These trends were also highlighted to the panel during their visits to Active Life and Sencio facilities. The panel also noted that the factors such as declining economic confidence, corporate membership cutbacks and job loss fears would affect subscription levels at private sector clubs and the lowering of grant levels would affect council supported facilities ability to compete, especially in areas where competition is higher.

National cost comparisons by subsidy, operational cost recovery and cost per head against management options indicate trust operators are better financial performers than in-house operators whilst private sector contractors' performance is better than that of trusts¹⁴.

Local Issues

Delivery of leisure services in Canterbury is set in the context of a growing district population and large educational sector. The Active People definition indicates that the district has a larger number of active adults than elsewhere. These factors all contribute to large market for commercial health and fitness. The city council's futures study indicates that although the profile of the districts population will change with a greater proportion of older people, its growth is set to continue.

Estimates of demand and supply show that the majority of swimming demand is met and that sports such as badminton and squash are well served compared to neighbouring districts. There are a number of large sports halls, particularly during off peak times, although there is an issue of oversupply and the panel noted that there was some underutilisation in the sports centres they toured. Increasing facility usage levels was an issue for all but one of the facilities visited. The estimates also considered that there was an oversupply of swimming pool facilities in Canterbury.

Kingsmead and Active Life

Of all the local facilities, the Kingsmead centre is the oldest and in need of investment and maintenance. On their visit the panel were also told that key pressures on Active Life included rising energy costs and a reduction in income partly due to increased competition from other leisure providers in Canterbury, together with the extended closure for refurbishment in facilities in Whitstable as the trust looks to adapt its offering to changing leisure trends.

At the present time the council continues to work with Active Life who are reliant on council

¹⁴ Audit Commission Data



8. New Herne Bay High School & sports centre

support to pursue new growth initiatives¹⁵, such as the proposed delivery of soft play provision in Wincheap as well as extending loans for facilities approval, such as the improvements to the Herne Bay sports centre.¹⁶ The cost of servicing these loans adds to Active Life's costs.

Because of this reliance on council funding the trust budget is just as vulnerable to constraints and cuts in public spending as an in-house leisure service. Unlike Sencio Leisure, Active Life are operating at a loss and do not have the financial reserves to make the investments to withstand significant changes in leisure patterns and the health and fitness market.

A major financial issue is the continuing need for significant capital investment in the buildings. Some of the leisure centres were designed and built in the 1970's and 1980's and require investment in repair and refurbishment to ensure effective operation, to retain custom and to compete in the future leisure market. This is a common problem with sports centres supported by public expenditure across England, where 65 per cent of facilities are over 20 years old.¹⁷ The current property maintenance allocation revenue budget currently stands at £174K per year. Analysis of backlog, current and future costs for the Kingsmead centre over 22 years are around £2.4 million.¹⁸

The proportion of savings from NNDR and VAT recycled to Active Life in grant funding have not been adequate to fund the required level of investment upgrade the facilities and to stem the decline in the building infrastructure at Kingsmead. Savings have also been diluted by set-up costs, corporate costs resulting from managing the separate budget elements and contract management costs.

As a trust operation, the management fee will increase in line with the retail price index for the final year of the 4 year agreement up to March 2012. In advance of that the council will then have a choice of breaking the contact and re-tendering, and/or adopting a different model of delivery.

Budgetary pressures on the public sector mean that all council spending is being re-considered and the Active Life subsidy is no exception, although Active Life is helping to deliver some of the council's stated objectives and occupies a major position in the local leisure market.

Active Life's financial viability remains a high risk on the council risk register. The trust has been making an operational loss over the past three years and financial survival is dependant on careful cash flow management and significant loans from the council: £600,000 to help fund energy saving measures to reduce running costs and carry out refurbishments across the centres. The extra funding is aimed at growing the business and making it more competitive in the face of increased private sector competition. This was

¹⁵ Active life have a number of loans, a total of £1.83 million, either with or underwritten by the council

¹⁶ A joint use, multi-purpose, indoor and outdoor community Sports Facility

¹⁷ Audit Commission Data

¹⁸ SLC analysis

9. Greenwich Leisure (GLL) Website

combined with a capital grant of £110,000 to allow essential capital works at Kingsmead leisure centre.

Loans to leisure trusts are not restricted to Canterbury. Thanet Leisure force is seeking a £3.5 million loan from the district council and Maidstone BC has advanced a loan of over £4.5 million to its

contractor SERCO for a major refurbishment of the Maidstone leisure centre, although as a large multi-national company, the financial status of SERCO is different to Active Life.

Other Council's Experience

Other councils have come up against similar pressures and there have been some high profile failures: Enfield Leisure Trust went into liquidation in September 2006. Its subsidiary, East Hertfordshire Leisure Trust had a contract with East Hertfordshire DC that had a £500,000 deficit in the first year of a five-year contract. The council was forced to terminate the contract and transfer the service and jobs to Stevenage Leisure trust.

Chiltern DC was faced with a £1.2 million bill following the collapse of the Chiltern Leisure Trust in 2004 after a series of loans to cover a revenue gap caused by a facilities refurbishment were not enough to prevent the trust asking for a 40% increase in the council management fee, which was rejected. This resulted in the council taking on the trusts debts and having a neighbouring authority deliver the service. Services are now delivered by Nexus Partners¹⁹, a trust who manage the leisure facilities of a number of adjoining local authorities, but who obtain most of their funding through trading rather than grant funding.

Rossendale Borough council considered the closure of its leisure facilities in 2008 after a similar request to increase the grant to its leisure trust. Eventually a decision was taken to bring services back in-house, invest heavily in the provision of new facilities.²⁰

Bristol council and Parkwood leisure are working on a PFI funded project to deliver a major development in Bristol for and Olympic sized pool and leisure complex.

But there are also a number of successful trust operations. Greenwich Leisure (picture 7) was established in 1993 and has significantly reduced running costs whilst at the same time increasing turnover, generating income which has enabled it to take over the management of leisure facilities in other London boroughs and beyond, for example the new fitness site in

¹⁹ Formerly Wycombe leisure Limited

²⁰ Leisure opportunities.com 6th April 2010: '£5.6 million to be invested in Rossendale Leisure'

Crystal Palace sports complex. Fusion leisure delivers services for Tunbridge Wells borough council, Oxford Council and a number of other local authorities whilst DC Leisure manages centres for 28 councils across the country.

In some respects, compared to other trusts in the South of England, Active Life offers reasonable value. Some trusts are subsidised to higher levels, for example Hertfordshire Council pays over £1 million per year to its leisure trust Halo, Pendle Borough pays a similar amount, whilst Lewis DC subsidises its trust by £800K per annum, whilst Sencio leisure charges a management fee of £241K whilst meeting all other expenses. Locally, Thanet district council pays its trust a management fee of £800K per annum.

9. Other review activity

Year One Strategic and Organisational Review of Active Life

Active Life has been the subject of a Strategic and Organisational review carried out by Year One Consulting in May 2010. This considered the company performance to date against key organisational aims, company governance and capability relating to those aims and relationships with key stakeholders including the council.

The review highlighted the wide range of facilities provided by Active Life together with the £2 million in VAT and business rate savings generated, as well as their work with specific communities, improved staff pay and working conditions and successful operational management. The review noted the success of the trust with its social health programmes and collaborative work through the PCT and Sure Start programmes.

However the report suggested that proactive community engagement tends to be passive and less driven than other projects, such as new fitness facilities. Areas for development included:

- Stakeholder engagement
- Relationship with the council outside of the funding role
- Publicising community activity

The report felt that Active Life had a management focus on operational and tactical leadership with a priority on cost management. The continued success of the organisation would be dependant on how Active Life can adopt a more proactive and entrepreneurial approach in future, for example diversification into new areas such as soft play or managing facilities on behalf of others. However, the Trust's ability to manage these, its financial position and management capacity in terms of project management mitigate against progress in these areas.

In terms of objectives, the review assessment suggested that the council's relationship with Active Life had evolved organically, i.e. that the company had developed it's understanding of the council's objectives over time, rather than being framed with a clear set of principles and with a clear set of objectives in mind. The key communication between the council and Active Life has been about saving costs rather than providing value, e.g. funder and funding

recipient instead of client and service provider. The panel have noted the need for clear objectives and considered it in their recommendations.

Sport Leisure and Culture Consultancy (SLC) review into Active Life

As part of the scrutiny process, the council commissioned the Sport Leisure and Culture Consultancy (SLC) to explore the key scope questions, provide advice on the current national picture regarding local authority leisure provision, review the current provision and advise on the councils current and future approach. The scrutiny review panel were consulted as part of the consultant options analysis and have contributed to the findings. The panel have therefore drawn on their work with the consultants to inform their conclusions and recommendations.

10. Review questions

The review scope set out a number of questions that the panel wished to address as part of its investigations. These were:

- 1. What should the council's role be in delivering overall provision? Should it adopt other models? For example, commissioning third parties to deliver services, or is the current arms length model more appropriate?*
- 2. What specific services should be provided and in which specific locations?*
- 3. How will future models meet the council's stated leisure objectives?*
- 4. Where does the increased private sector provision of leisure facilities, e.g. swimming pools, gym facilities, etc, fit with those currently provided by the council?*
- 5. How does the current model of service delivery fit with the budgetary trends the council faces and the impact of the current economic climate?*

These issues are considered in turn below.

1. What should the council's role be in delivering overall provision? Should it adopt other models? For example, commissioning third parties to deliver services, or is the current arms length model more appropriate?

It has been assumed by the scrutiny panel that the council is committed to supporting sport and leisure provision in the district and will continue to do so for the foreseeable future. Within that commitment, as the report has stated earlier there are options for the council to pursue, whilst making the overall commitment to support leisure provision in the district.

The new Decentralisation and Localism Bill will empower local communities to run services or facilities in their neighbourhood where there is evidence this is what local residents want or the service or facility has been earmarked by the local council to be discontinued or closed down. Mutuels, co-operatives, charities and social enterprises will be encouraged to run public services. However, the bill and provisions such as the 'community right to buy' will

not be enacted for at least two years, well past the decision date for the Active Life contract renewal.

Although there is limited evidence of community groups managing large leisure trusts, facilities such as single swimming pools are sometimes delivered by community trusts. For example in Rossendale Borough, the Community Leisure Association Whitworth was a community organisation established to operate two community facilities, Whitworth Leisure Centre and the Riverside Civic Hall. In Swale borough, the Faversham Swimming Pool is run by Faversham Pools Management Committee, a charitable trust. This type of management centres on one or two locations, rather than a large multi-site trust. Larger trusts and commercial leisure companies have experience of delivering a large scale leisure service. Splitting the trust into smaller concerns would also increase the management overhead costs.

In Canterbury district a number of sports clubs and groups exist in the city and coastal towns although it is not clear if there are any potential groups forming along the lines in Rossendale and Faversham and the council has not received any expressions of interest.

The view of the panel is that the council should continue to support leisure provision as a whole across the district to enable economies of scale and deliver a district-wide service. In most other authorities this continues to be the model, although it found evidence of financially driven change in the mode of delivery and general moves away from in-house provision (see fig 1). And whilst there are also moves toward concentration of provision by larger private sector trust operations, the panel is not aware of any local authority completely financially withdrawing from leisure provision. However, this is not to say that the council cannot obtain better value with the current trust arrangement.

Recommendation 1: The panel believe that whatever the model of service delivery used, the council should continue to support indoor leisure provision across the whole district.

Other trusts have made improvements in their performance and the panel saw evidence of trust expansion and diversification on their visit to Sencio Leisure at Sevenoaks. The three leisure centres managed by Fusion Lifestyle for Tunbridge Wells borough council - which has managed the service since 2006 as part of a ten-year contract - has reduced the grant and subsidy per resident from £11.36 in 2006/07 to £2.96 in 2008/09. Enfield council have made similar progress with Fusion leisure.

Subjecting council leisure provision to the external market either through a full or limited tender exercise might mean the council can reduce its costs through packaging any contract to include the cost of buildings maintenance and associated costs together with the objective of reduced management costs. However, this may require external advice to help the council engage with the market and also require offering a longer contracts and lease periods with less control over the subsequent service provision to justify a the external investment. There would also be a loss of the taxation benefits currently enjoyed by the council if the operator

was not a charitable organisation and there will be a limit to the council's influence in terms of delivering leisure objectives and pricing.

The panel saw that the relationship between the leisure operation and the buildings maintenance as crucial, if the council wished to transfer the risk of its buildings to another operator, or retain the landlord responsibility. However, where condition surveys are made available to bidders, they are in a position to assess the maintenance needs of the facilities, and build this into any contract. Although it would be difficult to assess the cost, transfer of buildings could be included as an option. The council will then be in a position to evaluate if transferring risk delivers better value for money than retaining responsibility for maintaining responsibility for the buildings.

Recommendation 2: The panel recommend that the council consider other models of service delivery and subject the current arrangements to market testing in the next two years.

Any procurement process would itself involve a considerable input in terms of money and resources together with specialist tax advice and will take some time to complete. The process would generate considerable instability for Active Life and the council may have to support the leisure operation if the trust decides not to continue with the contract. There would also be the need to develop the necessary expertise to bid for any future leisure contract. Officers from Sencio, who have themselves successfully and unsuccessfully bid for external business, feel that the bidding process requires significant resource input in the short term and the development of necessary expertise over the medium term. There may be a need to consider support such as extending the current contract for another year to give Active Life a degree of short term stability and the time to prepare for any tender exercise.

Other options involving a less intensive approach to testing the market, such as 'soft market testing'²¹, together with an extension to the current terms for Active Life would allow time for the coastal facilities improvements to be completed and may be less disruptive and still achieve the goal of exposing the current operation to competition.

Recommendation 3: The panel recommend that before subjecting the current arrangements to market testing, the council extend the current contract with Active Life for 12 months to give the required stability for the preparation of any tender exercise

2. What specific services should be provided and in which specific locations?

Across Kent and in other similar parts of the country, council leisure service provision tends to be focussed around balancing provision across the district/borough centred on the main urban areas. Active Life provides services in all major urban areas of the district. The panel felt on balance that this was the best approach for the coastal towns as alternative provision is limited and would involve travel to Canterbury or to the neighbouring town if one of the coastal centres were to close. In addition both town facilities are the subject of significant

²¹ An exploration of the potential market for alternative provider arrangements without embarking on a formal procurement process

investment which would have to be discounted or sold if another option were chosen, such as a single purpose-built facility for both towns. The lack of alternative facilities in the coastal towns suggests that the current facilities meet an identified local need. In an evidence session to the panel, Active Life considered the upgraded coastal facilities would be a crucial income stream for any future trust operation. Consequently, the panel feel that there is no requirement to rationalise the provision in the coastal towns.

In Canterbury, the panel found evidence of competition for both swimming and fitness facilities. Kings School and DW Sports are both situated in close proximity to the Kingsmead centre with a similar mix of facilities. Elsewhere in Canterbury, Body and Mind and the University, together with the smaller private clubs suggest a reasonable level of fitness and gym facilities for the area to meet demand. Public swimming is less well provided for. The other Canterbury pool at the Simon Langton Boys School provides restricted access to the public.



10. Kingsmead Pool, Canterbury

As stated in section seven of the report, the panel heard that the facilities at Kings School are nearing capacity, but the DW Sports has room for expansion, to meet a capacity target based on the expected commercial rate of return for the facility.

The facilities at Kingsmead combine a gym complex (recently extended) and a 32 meter pool, the largest in the district, together with fitness studios and a large sports hall. Usage as the panel, found varies across the facility with the profitable gym and fitness classes effectively subsidising the swimming pool. Another challenge is the large sports hall which is not utilised to full capacity, although this is a problem experienced by other operators.

Matching facilities to the current trends in sport and fitness is a problem faced by many providers. For example on their site visit, the panel saw the Kings School sports centre was converting some of its underutilised squash courts to a fitness studio, whilst a major challenge for Body and Mind was to improve usage of its medium size fitness suite. At Sevenoaks, Sencio Leisure was considering converting an under used part of the swimming complex to gym facilities which would be more profitable. Improvements at the Kings School were financed by the school itself whilst Sencio were looking to raise capital externally to make changes to the Sevenoaks leisure centre. Most changes to Active Life facilities are at present reliant on council financial support or risk underwriting arrangements.

The panel consider that the council should still remain committed to providing leisure facilities, then on balance the current mix based on the three urban areas is the most appropriate way of delivering the service.

Recommendation 4: The panel therefore recommend that the current balance of services in Canterbury and the Coastal towns is maintained in any future indoor leisure contract.

3. How will future models meet the council's stated leisure objectives?

Potential advantage/disadvantage	Taxation savings	Increased access to capital	Savings in central charges	Increased management capacity	Set-up costs	Transfer of risk	Community involvement	Council influence
In-house	No	No	No	No	Low	No	Limited to customer forums	Direct management
Private contractor	No	Yes	Yes	Yes	Low	Yes	Limited to customer forums	Through partnership agreement/contract
New trust	Yes	Limited	Some	No	High	Some	Yes	Through grant agreement and representation on board
Existing trust	Yes	Some	Yes	Yes	Medium	Greater the larger the host	Yes	Through grant/contract agreement
Hybrid trust	Yes	Yes	Yes	Yes	Low	Yes	Some	Through partnership agreement/contract

Fig 3 Management Models (Source: Audit Commission)

Issues

Different models of leisure management allow for different levels of influence over the operation and delivery of service. These range from in-house, which gives a high degree of influence over service provision to ensure they reflect council corporate leisure objectives to private sector where influence might be limited to subsidising specific socially related leisure activities, for example funding DW sports to deliver school swimming.

Leisure objectives

The council's current leisure objectives which are merely broad commitments to supporting leisure activity set out in section 6 of the report, in themselves would not be an effective basis for determining leisure provision in the district.

The council does not yet have a dedicated leisure facilities strategy and the panel realises the need for one that clearly sets out the council's goals and provides a context for forward planning over the longer term. The panel notes that the SLC review is the first stage in the process for developing such a strategy. The strategy should seek to improve service delivery in areas such as national and local health, local needs assessment and inclusive leisure activity.

This was recognised in the Year One report which considered the governance structure and process of Active Life and its relationship with the council. It was the view that the relationship between the council and Active Life had evolved organically, rather than being framed by a clear set of principals and with a clear set of objectives in mind. In addition, it

was suggested that the message being communicated has from the evidence gathered focused predominantly around saving cost rather than providing value.

The panel also noted that some authorities invest more time in managing the client/contractor relationship between the council and the leisure trust by monitoring performance against a clear set of indicators related to specific leisure objectives and the council management fee. For example, Sevenoaks Council manage their contract through performance indicators that are set out in a Funding Agreement between Sencio and SDC. They are confirmed in the annual contract letter that confirms the Management Fee each year.²² In Swale borough, Serco have had the Leisure Centre Management Contract since 2004. Contract monitoring is through monthly contract meetings with Serco and Trust representatives, monitoring of customer feedback & complaints, mystery shopper visits allied to a suite of financial, public satisfaction indicators.

When Active Life was established in 2002, the legal arrangements consisted of leases for the five centres, a Transfer Agreement setting out what was to be transferred to the new organisation (staff, equipment, etc.) and a Funding Agreement, which set out the terms on which the council would provide funding. As part of this agreement a Community Plan was developed with Active Life setting out broad objectives relating to visits, health promotion, satisfaction and financial performance. There has been no formal mechanism through which performance has been reported although at various times during the last 8-years reports have gone to the Executive, O&S and Audit Committees detailing performance often within the context of decisions required relating to investment. Officers have regular monitoring meetings with Active Life's management team and attend Board meetings. The portfolio holder also regularly meets with Active Life's Chief Executive.

Linking any new arrangement for leisure services to effective contract and performance management will be crucial if the current arms length model is continued and critical in any private sector arrangement which limits the council's influence over leisure objective delivery to contract management (see fig 3). Service outputs would be developed as part of a specification for a new contract.

Recommendation 5: That the council further develops key performance and outcome measures as part of any specification for future management of leisure centres.

Members of the Active Life board gave evidence to the review panel and stated that their objectives were quality, value for money and community use. This links to the council objectives outlined earlier in the report regarding access to leisure and the importance of sport and leisure in contributing to the wider health agenda. The panel believe that it was important that the indoor leisure offer for local residents remained relevant and met the current and future needs.

The panel were informed that along with initiatives arising from government policy, the outcome of the review would help not only to determine the future direction of the council

²² Sencio also submit annual audited accounts which are presented to Members annually as part of an annual Sencio Progress Report.

leisure facilities, but also the future content of an indoor leisure facilities strategy. This would need to take into account the future costs of the leisure facilities maintenance and the increased management fee together with the current budget situation the council faces as well as the need to deliver a balanced leisure service to the community.

Expansion and increased turnover together with the cost improvements brought about by economies of scale are the hallmarks of a successful trust such as Greenwich Leisure. This activity has only been pursued by Active Life only in the past two years. However, this does limit local accountability and the ability to tie in wider social objectives to local leisure provision. Unless the objectives are specified in the funding agreement, this must be something the council considers if it goes in to such an arrangement.

Recommendation 6: That the council develop an indoor leisure facilities strategy containing clear and meaningful objectives and outcomes relating to the council's corporate plan.

Future models - Continue with the current arrangement

This would provide continuity and allow Active Life to plan ahead and begin to deliver on its stated intent to diversify on the current leisure offering and also take on new business. The soft play area project at Wincheap which has been identified in partnership with a third party, has already had the risk underwritten by the council. The taxation advantages would also continue and users would face minimal disruption. As stated previously, it would also allow time for the refurbished coastal facilities to come on-line.

The disadvantage for the council in continuing the current arrangement would be ongoing financial involvement through a management fee, building maintenance costs, capital facilities investment and underwriting any expansion and further refurbishment risks. The current and short term financial position of Active Life, together with the competition from neighbouring facilities and future trading conditions in a mature leisure market, could mean that some of these costs may increase significantly over the lifespan of any future contract.

Fig 4: Consumer expenditure on sports and fitness participation (£m) 2005- 2009

	2005	2006	2007	2008	2009	% Change 2005-09
Subscriptions	2,000	2,100	2,000	1,950	1,900	-5.0
Ad hoc charges[^]	1,675	1,650	1,650	1,625	1,600	-4.5
Total Participation	3,675	3,750	3,650	3,575	3,500	-4.8

[^](pay per play, e.g. swimming admissions)

Source: Keynote based on family spending, national statistics data

One of the main drivers for change in the leisure sector and in the district is the need to provide services in the most cost effective manner. The Active Life contract has been running for eight years and during that time the council has made significant NNDR and VAT savings, but at the same time, has needed to pay a maintenance charge, invest in facilities maintenance and adaptation to changing patterns of leisure through the management grant, revenue budget and supporting loans. These supporting costs will rise in future whilst the council budget comes under increasing pressure if the status quo is maintained.

The rationale for council providing loans is that it is able to access finance at a more competitive rate than on the open market. Many other community and commercial organisations with a community angle have taken advantage of this facility, although the loans are usually linked to the ability to generate sufficient income to repay the loan amount, as with the leisure facilities at redevelopment supported by Maidstone Borough Council.

The funding application was premised on an injection of capital funding to enable various energy efficiency measures and improved gym facilities, the savings of which would help minimise the revenue funding from the council and to be reinvested in urgent facility refurbishments. However, the realisation of intended savings is still some way off. As Active Life looks to develop its operation outside of the leisure centres, the main question will be the ability of the council to support this investment over the short to medium term.

Active Life representatives suggested to the panel that they are looking to provide value for money to the local community and the prices charged reflect this. They are lower than the surrounding competition in Canterbury and are maintained despite the absence of any comparable offering in the coastal towns (see fig 4). If the council remains with Active Life, then along with the initiatives to diversify their portfolio of activities, the panel feel that Active Life's pricing strategy may need to be developed to bring in more income to offset the reduction in management fee.

There are facilities locally that could meet some of the demand in Canterbury if Kingsmead were not available but these are more expensive and the lack of competition in the coastal towns would suggest revenue generating opportunities.

Future models - Partnership with an existing trust

Trust partnership - Potential advantages and disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none"> • Additional capacity in areas such as marketing and management • Economies of scale, for example reduction in support costs • With larger trusts, the ability to lever greater external funding • Track record can be assessed in line with council objectives • Transfer of some risk and stable revenue funding if long-term contract in place 	<ul style="list-style-type: none"> • Increased capacity of the host to take on additional partner not adequately assessed • Established board already would give no or limited representation by council • Existing trust could be geographically remote from council

A growing number of existing trusts are looking to expand their operational management outside and beyond the local authority in which they were originally established. At first this process may appear unusual, it is similar to how the commercial leisure companies developed and expanded. The rationale for a trust expanding into Canterbury district is to be tested as there is no financial benefit to trustees (unlike the dividend paid to shareholders). Therefore, the key question to resolve is which organisation benefits from such an arrangement, the host or the new partner organisation.



The motives of the 'predatory' trust need to be considered carefully. Is it about growing a business in a bid to improve service delivery through efficient operational and organisational practices (e.g. support services) or is it empire building for trustees and chief executives? Varying degrees of trust partnership arrangements can apply ranging from one trust supplying support services to another, to a concession contract won in competition.

11. Tameside Sports Trust - A diverse multi-site trust

The type of lease arrangement for facilities is dependant on the age and quality of facilities being transferred. The private sector and trusts are only willing to take on new facilities on a full repairing lease basis. However, it is more cost effective for the council to invest capital in the facilities than the partner, as the partner is unlikely to be able to reclaim VAT in the investment. Also a trust can achieve up to 80% mandatory rate relief on its facilities. In a typical lease arrangement, the council will retain ownership of the assets (Buildings, pools, etc) regardless of which management option is chosen.

There is support for this approach. On their site visit, the panel heard evidence from the board of Sencio Leisure that their trust would be interested in exploring the opportunities for partnership working with Active Life to secure improvements in service along with economies in scale which the trust felt were necessary for continued success in the current leisure market. From their evidence sessions, the panel understand that Active Life already have a good working relationship with Sencio and this is reciprocated.

Future models - Transfer to a hybrid trust or private operator

Hybrid Trust - Potential advantages and disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none"> • Taxation savings can be re-invested in the service where required • Partnership approach to investment • Ability to borrow/secure private capital • Additional capacity in areas such as training marketing and management • Economies of scale, for example, reduction in support costs • Low set up costs • Private management expertise particularly in income generation 	<ul style="list-style-type: none"> • Councils' central services overheads spread over fewer services • Contractors focussed on income generation at the expense of social objectives • Performance based contract may not encompass all relevant social objectives

This option would require the council setting up or participating in a trust company that has not for profit objectives. The trust company is then granted the lease for the facilities and contracts with the council for their management. In turn it enters into a performance based management contract with a private sector operator, with the NNDR savings being passed back to the council, and the private sector company managing the service as an agent of the trust company.

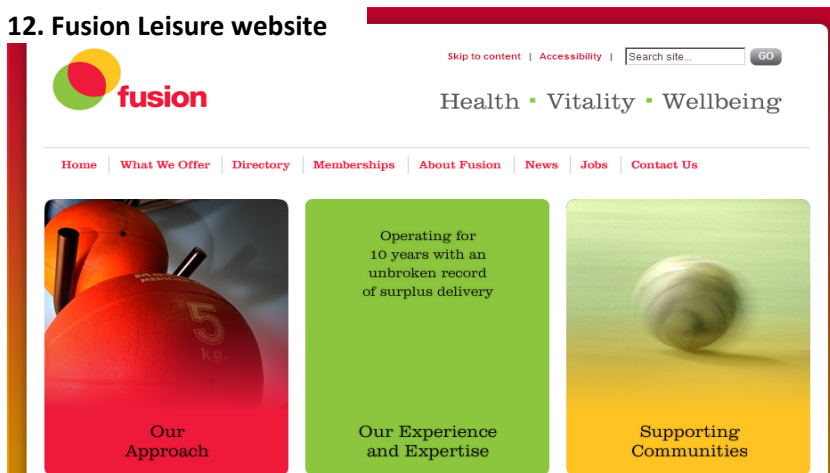
There are many successful private sector partnerships, such as those in East Hampshire, where DC Leisure manages the hybrid trust, East Hampshire Community Leisure Association. The council has ringfenced the taxation savings for the maintenance and improvement of the three leisure centres after an agreed condition survey. The work is funded by both parties. This option has the benefit of allowing the council's social objectives to be delivered, whilst sharing the financial commitment and risk with a private contractor. A relevant factor here would be the agreement of maintenance funding and the commitment of the council to continue payments, which could be significant. SLC have identified an approximate whole life cost of over £690K per year over the next 20 years for the Kingsmead facility.

Private Contractors - Potential advantages and disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none"> • A commercial approach to management and income maximisation • A competitive bidding process means a council can demonstrate value for money and potentially reduce its subsidy • Access to development capital • Transfer of risk and stable revenue funding (If long-term contract in place) • Savings through economies of scale particularly on support service costs • Service improvement through planned development 	<ul style="list-style-type: none"> • Councils' central services overheads spread over fewer services • Procurement costs can be significant • No scope for taxation savings • Restricted investment if contracts are short • Inflexible contracts • Contractors focussed on income generation at the expense of social objectives

A number of councils have entered into contracts with private providers who manage the existing council facilities. The companies usually bring the economies of scale from the parent company, together with the commercial experience to deliver improved

12. Fusion Leisure website



performance and investment in facilities. In Kent, Tunbridge Wells Borough council's three leisure facilities are managed in a 10 year contract by Fusion Leisure, a London based company who also manage facilities across the South East. During this time the subsidy per resident has reduced from £11.36 in 2006/07 to £2.96 in 2008/09.

If the council transfers to a private operator, it will have to accept that the leisure operator will want an element of profit built into the contract. Depending on the partner, the competitiveness of the tendering process and the attractiveness of the contract, this profit margin could range from between 6 to 12% of income.

Private sector companies would be more willing to invest if they could see a potential return on their investment. In terms of the council's leisure facilities, whilst the coastal facilities are subject to refurbishment or change programmes to deliver an improved facility. The Kingsmead facility will require significant building investment over the short to medium term. It may be that to realise a sufficient rate of return on any investment, a private sector company would require a long contract to realise the return on investment required.

If existing providers are taken as a guide, private sector companies would probably offer improved financial performance bring better information and more developed support services and the drive to increase income would mean a more customer focussed approach, although this may mean that social objectives, such as access to people on low incomes are less important. Any involvement of the private sector would need to be balanced with clear targeting related to the council's sport and leisure objectives. The panel consider that the council would need to make targets for leisure more explicit and that this should be a priority in any new indoor leisure strategy.

If the contract issues were resolved then moving the leisure provision to a private operator would represent an effective way of improving the current service and decreasing the operator's reliance on council support. This is discussed in the options discussion summary in section 11 below.

4. Where does the increased private sector provision of leisure facilities, e.g. swimming pools, gym facilities, etc, fit with those currently provided by the council?

The panel felt that the current balance of facilities provided in the coastal towns is reasonable and complements the existing schools facilities. In Canterbury, the situation is less clear, with other facilities providing similar services within close proximity. Consultation with Active Life and the council indicates that competition from other leisure providers is perceived as a major challenge for the next five years.²³ Numbers of users have fallen recently²⁴ - for example, the number of swims (fig 2). Although in discussions with the review panel, representatives from Active Life felt that it's offering of good value leisure membership combined with pay as you go participation has attracted new membership away from the private sector.

As part of the review evidence gathering, the panel visited Kingsmead and were shown the facilities on offer. In particular the expansion of the gym and fitness facilities to respond to market trends and generate income was noted. It was also pointed out the pool was extensively used by nearby schools, Canterbury swimming club and also used for sub-aqua training – the attraction for the latter being the length (32 metres) and depth of the Kingsmead pool, more than any neighbouring facility. However, it was recognised that the pool needed continued investment to reduce the maintenance and heating costs. Active Life is not registered with the UK quality scheme for leisure centres – QUEST – which makes comparisons with other providers difficult, but the facilities at Kingsmead were described as 'tired' by SLC and did not compare favourably with others visited by the scrutiny panel.

The review panel visited the current facilities in the Canterbury area which are a mix of private sector and joint use facilities. Although the Kings School facilities are comparable, albeit much smaller in scale, the Membership fees are higher than other facilities. Whilst the centre looks to break even in operating terms, there is no financial impetus to broaden the Membership offer as the facilities are linked to the school.

Fig 5: Leisure Centre membership costs²⁵

Standard membership					
Active Life (£ per month)		DW Sports Fitness (£ per month)		The King's School Recreation Centre (£ per month)	
<i>Five Star</i>	35.00	<i>Peak</i>	39.00	<i>Platinum</i>	60.00
<i>Four Star</i>	24.00	<i>Off-peak</i>	29.50	<i>Gold</i>	38.00
				<i>Silver</i>	11.00
Concessions					
Child, Low income & Students	15.00	Students/Teens (14+) Peak & Off Peak	29.00 19.95	Child Platinum/Gold/Silver	29.00, 17.00, 8.00
Over 60's	15.00	Over 60's	19.95	Over 65's Platinum/Gold/Silver	51.00, 31.00, 9.00
Family	49.00	Family	No.	Family Platinum/Gold/Silver	148.00, 91.00, 30.00

²³ Year one report page 29.

²⁴ Active Life Annual Report: 2009.

²⁵ Source: Published prices 2010/11

Although DW Sport refused a visit from the panel, the review obtained pricing and other information to suggest that the facilities offered were comparable to Kingsmead and offered to a higher specification²⁶. Again DW do not offer pay as you go activity, but do have a range of competitive options in terms of membership with their monthly peak membership cost of £38 per month similar to Active Life's £35 per month 5 Star peak offer and the off-peak monthly rate of £28 higher than the Active life four-star membership offer of £24.

Whilst it is clear that DW Sports are in competition with Active Life, they indicated to SLC that they would be willing to consider partnership opportunities with the council in the future. This would be around targeted memberships for certain members or groups and providing swimming lessons. The collaboration would have the benefit of utilising the existing spare capacity at DW and help improve participation amongst low income groups. How far this would go toward replacing the offer of Active Life is unclear. The panel heard that school swimming is a major income source for Active Life, generating some £15,000 - £18,000 per year in income.

Recommendation 7: Once an indoor leisure strategy has been determined the council should explore the option of closer working in partnership with another provider to deliver services. This should happen prior to any consideration of other models of service delivery.

Any changes to leisure facilities will affect some groups more than others. Nationally, the use of facilities such as gyms, fitness classes and swimming pools is slightly biased towards women and youth for private sector membership and men for public facilities. The level of usage overall of private and public facilities is evenly balanced with age being the critical factor, whilst in social grade terms there is generally a broad spread of users, whilst the wealthier homes are also the heaviest users of public facilities.²⁷

Loss of custom to the private sector must also be set against Active Life building relationships to meet social needs and concessionary activity. The panel feel that the community facility role of Active Life should not be overlooked and that there was evidence that it filled a community role none of the other comparable facilities offered. This was evident in the health & rehabilitation related activity and the pricing allied with a 'pay as you go' option.

The panel therefore feel that the current offering by Active Life is distinctive enough, despite nearby facilities at DW Sports and Kings School. However the site will need more investment over the next 5 – 10 years to stay competitive and the panel feel that alternative approaches that enabled this investment whilst preserving the mix of facilities could be considered.

²⁶ DW Sport's head office did respond to enquiries from SLC and suggested that they would be interested in working with the council on targeted memberships for individuals and groups as well as providing swimming lessons to compliment those of Active Life. SLC concluded that whilst DW is competing with the council, partnership work with the council should not be ruled out in the future.

²⁷ Keynote page 42-43

However, there are concerns over the condition and long-term sustainability of Kingsmead Leisure Centre. There are a number of ways of dealing with this and these have been discussed by the panel and SLC. The options range from introducing soft-play (rather than at Wincheap) into the existing sports hall (a facility the panel saw evidence of over supply in the area), reducing costs through closing down the pool and replacing them with purpose built standalone 25m pool elsewhere.

Another option might be to close Kingsmead in order to reduce the council's liabilities, although this is not supported by the panel. The evidence of other authorities suggests that there are more effect ways of the council sharing its responsibility for leisure provision in Canterbury to other public, private and voluntary sector providers.

A partnership with another trust or procurement exercise with refurbishment of Kingsmead Leisure Centre has the potential to reduce the overall maintenance costs for the council and improve the facilities, as has been done elsewhere, for example Greenwich Leisure. The challenge for any purchaser/provider/partner will be generating the finance required. This might be a key question for any proposed partnership arrangement or be relevant to any consideration of the future third party operator. The Kingsmead centre is over 40 years old and despite Active Life considering that it was sustainable as a facility when it gave evidence to the panel; there are clear ongoing maintenance concerns.

The panel has considered replacing the Kingsmead centre completely with a new purpose built facility; this option could be compared to any potential refurbishment carried out by the council or a third part as part of a long contract.

Recommendation 8: The council should consider the future of the Kingsmead site and determine the maintenance and investment levels prior to any consideration of external competition for leisure services.

Kingsmead – Future Options

As the panel have stated, the coastal facilities are the subject of significant investment as well as operating relatively unopposed in their localities. Whereas at Kingsmead the facilities are in need of investment, incur significant higher maintenance costs and face more competition. There are a number of options for dealing with the Kingsmead facilities and these were considered by the panel with the council consultants. The potential options that could be examined are set out below:

a) Retain existing facility

Retaining the existing facility at Kingsmead with costs as outlined earlier in this report. Lifecycle costs (excluding loans) are now estimated at £2.96m over 20 years. Whole life costs after revenue contribution of £100k per year are estimated at £960k. This would mean continued investment, but it would mean retaining the integrated offer for council provision and the contribution to the community in terms of the pool facility and in general health and wellbeing.

b) Decommissioning leisure and learner pool and replace swimming provision with 25m pool attached to partner

This option would leave the pool hall empty and ready for future development. The cost of providing a new 25m pool together with ancillary facilities on a new site, possibly as part of any future wider Kingsmead development, attached to a partner has been estimated at £4.144m

In this option, Kingsmead Leisure Centre would, until an alternative use for the pool halls is implemented, be operating with a void, both physically and in terms of revenue. There would necessarily be a reduction in costs in terms of staffing and energy. A new pool would be more efficient in operation and maintenance, whilst the financial performance of Kingsmead Leisure Centre without any swimming pools might result in a surplus.

However, there would be considerable difficulty in raising the necessary pool finance in the current environment and losing the pool would in the medium term, result in the loss of integrated service for the site overall. This may affect user levels; assist the competition as well as restricting pool use, as the current 32 metre pool is the focus of club and other sporting use where its size and depth put it at a premium.

c) Only after the opening of suitable new facilities, close Kingsmead, decommission and redevelop land (prepare site for development only)

The estimated cost of demolishing Kingsmead Leisure Centre and associated works is £420,000. This would take Kingsmead out of the portfolio. Any operator would then lose the associated revenue, but there is a benefit of approximately £3.5 million over the next 20 years to the council in terms of building maintenance.

This option would require any future operator to downsize their operation to focus on the management of Herons, Herne Bay High School, Whitstable Pool and Whitstable Sports Centre. Economies of scale would be lost for Active Life and it would be more likely that a bigger operator with multi-site experience provide better value for money in running these four facilities, thus reducing the council's management fee. This could be subject to a market testing exercise.



13 Herons Centre, Herne Bay

d) Decommission main, leisure and learner pools and develop alternative leisure uses

Here the Kingsmead facility could potentially include related facilities such as Soft Play, indoor bowls, Ten Pin bowling, health and fitness studios and gym, spa and wellness facilities. As the panel saw on their site visits, remodelling facilities to cope with changing leisure patterns is a common trend.

A number of factors should be considered here including sustainability, financial performance, technical and design issues, environmental factors, energy requirements and traffic management, including car parking.

A typical mix could include a 25m pool, retaining spectator seating whilst using the whole sports hall space for soft play. Demolishing the beach pool to create more car parking and incorporating a health spa facility and separate changing on the ground floor together with additional studio space on the first floor.

The idea would be to provide a better commercial mix and respond to changing leisure patterns. However, as the panel saw at Kings School, this option would be expensive and disruptive in the short term and the works would potentially take the whole Leisure Centre out of action for at least 15 months, although a phased approach is possible.

When completed the objective would be for the improved facility would deliver an improved financial performance compared to the current operation at Kingsmead.

In this time, customers would need to go to other local facilities and core work such as swimming lessons would need to be moved to other pools, both public and private. There would be an impact in the first two years of operation for the newly refurbished centre to establish itself. There would be a real need to manage this process carefully to maintain public support and contact with customers.

Some estimates suggest that Active Life has lost a number of members to DW Fitness since opening equating to a loss of revenue of £66,000. This investment would be part of a strategy to claw back and increase membership. More detail on the financial implications of this project is being sought from Active Life. Needless to say, this arrangement would require the council to underwrite any investment.

5. How does the current model of service delivery fit with the budgetary trends the council faces and the impact of the current economic climate?

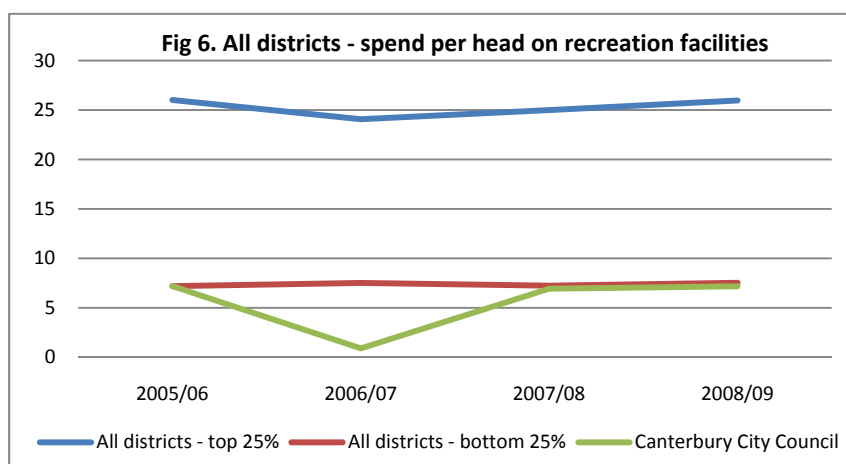
In the public sector budget reductions, as part of the 2010 Comprehensive Spending Review, mean Canterbury City Council (as with every other council in the country) is facing significant challenges with respect to its medium term financial plan, with reductions of 28% over the next four years in revenue expenditure. The council's capital programme is affected by the current economic climate and asset maintenance is also affected. Council management of the service has focussed on service cost rather than its value to local communities

The council has an affordability threshold for leisure, although this must be put into the context of major budget reductions over the next four years. There is a view that the current levels of grant are not sustainable and the council should be stepping back from its current role of direct provision. Other trusts are facing similar issues and councils contacted by the review²⁸ were looking to reduce their contribution to their leisure trust. For example, Sencio

²⁸ Information requested from Winchester, Oxford, Colchester

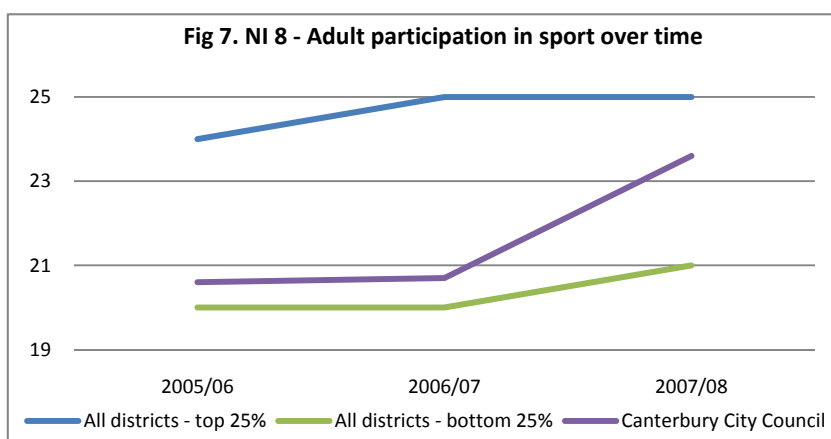
Leisure is expecting future grant reductions and to take on a larger share of the facilities management expenses.

Studies of the individual leisure management options indicate that while some may cost less than others in a given situation, for example, in-house services cost more than trust or private sector management, no single management option delivers better value for money or higher levels of participation. The transfer of the council's leisure service to Active Life has generated management and taxation cost savings, but the level of re-investment in grant and building maintenance has not been sufficient to prevent service deterioration. This is a national issue with public leisure facilities and not confined to Canterbury.²⁹



In some respects, Active Life is performing well as a trust and delivers value for money for customers in terms of charging and access to sporting facilities. Some neighbouring councils and those elsewhere in the country pay more in grant support for their leisure trust.

Also, Canterbury's spend on sports and recreation is amongst the lowest (Figure 6) when compared to other district councils, but has higher levels of adult participation (Figure 7).³⁰ Although the council makes significant savings in VAT and NNDR, the total spend on Active Life together with the associated building maintenance and insurance costs is higher.



The implementation of improvements to the Herne Bay and Whitstable sports facilities will improve income and help to offset the current operating loss. But the council will need to financially support Active Life for some time to come. Active Life have begun to look into

developing a soft play facility at Wincheap and a low cost gym project as part of a wider plan to grow the business, but both projects are at an early stage and carry a potential risk which the council is currently underwriting. The acquisition of new business may help Active Life

²⁹ Audit Commission report – 'The Management of Sports and Recreation Services'

³⁰ Audit Commission Value for Money Profiles - <http://vfm.audit-commission.gov.uk/>

make best use of economies of scale, but it is a late starter and needs to develop the necessary bidding expertise, although the break option in 2012 will inevitably create difficulties in securing external funding to develop this. Therefore, the current arrangements are not in the long term sustainable without an increasing level of input from the council.

As the report by Year One consulting has stated the relationship between the council and Active Life is primarily one of 'funder' and 'fundee' - the current service delivery model involves the council carrying out a landlord role for a number of buildings, whilst paying an increasing management fee for Active Life's contribution to the council leisure objectives. Active Life has made an operational loss in the past 3-years and is budgeting for a further loss in the current year. Costs have increased; particularly as relates to energy consumption, overrunning refurbishment works, rising energy costs and competition in Canterbury, an impact partly mitigated by increased 5 star membership levels.

The panels' view is that the losses may be unsustainable in the medium term and the arrangement represents a significant risk to the council in terms of financial support. Future changes to the prudential borrowing system may mean that the council will be unable to provide facility improvement loans of funding for other major capital works. Although if the council decides to exercise its break option, the current loans to Active Life will need to be written off or assumed by the council.

11. Recommendation 2: Options Summary

At the current time Active Life continue to provide the council's indoor leisure service and will do so until 2012, unless the council either exercises the break clause in the contract or, if the council or active life decide to terminate the contract at an earlier point. The panel considered a number of options together with evidence gained from other authorities, panel witness and an options review workshop with the SLC consultants. In addressing the review questions a number of options for progress were considered and set out below.

1. Re-tender contract with a hybrid trust arrangement or a private sector provider

The scrutiny panel felt that in view of the potential costs of the ongoing commitment to the current arrangements, the council should consider other models of service delivery. The most effective way of achieving this would be to seek outside interest in running the council's indoor leisure facilities. This may be from the private sector or other existing, successful trust operations.

As part of this process the council could consider different combinations of service delivery – for example a different balance of facilities in Canterbury, or expansion on the coast – as well as seeking a better balance of support for improving and expanding Canterbury leisure operations.

Key question for the ongoing service will be the continued commitment to building maintenance and the tax relief that the council currently receives. If the council decides to put the current arrangements out to a private sector provider then it would lose the tax relief it currently enjoys. However, this may be offset if the contract includes the buildings – albeit

on a longer contract to justify any investment by a private operator – which may eventually save more than the current income from tax exemptions. Although any savings must be offset against the time and cost of any procurement exercise.

The council would also have to ensure that any contract is drafted to reflect the council's current and future sports objectives, particularly with regard to participation and community needs.

2. Award Active Life another contract (Improve pricing and building + more investment)

This option would mean the continuation of the current arrangements with Active Life. The contract would need to be re-awarded, including any re-negotiation of service standards or targets, by 31st March 2011.

If the contract were renewed, the council would have to invest much more in terms of officer time in the client role, - the panel found evidence of a much closer relationship in other comparable authorities and on its visit to Sencio Leisure.

The review panel was of the view that the indoor leisure offer for local residents remained relevant and that the trust had a good community focus to its service delivery although Active life might in the short term, address pricing structure in order to deliver more income.

It was clear to the panel that whilst the coastal facilities had been the subject of investment and operate relatively unopposed, the Kingsmead centre is in need of investment and at the same time faces competition from other providers – although the panel did not see evidence that the existing competition, apart from DW Sports represented a direct threat to Active Life.

Notwithstanding this, the current arrangements, especially as regards Kingsmead, do not seem sustainable in the long term. The evidence of a deteriorating financial position, continued competition, together with the increased maintenance mean that there will be very little opportunity for the trust to improve facilities and diversify/expand its operations - as the panel have found other successful trusts have done - without significant ongoing investment by the council.

Therefore the panel considers that in the current environment, the council should seek alternatives to the current arrangements with Active Life, subject to adequate safeguards set out in recommendations 5 & 6.

3. Merge with another trust

The panel found evidence of successful trust operations and who are delivering services on behalf of other councils (see page 7). A trust partnership approach would generate extra capacity for the council and make use of economies of scale in service support. Another trust would bring knowledge of the type of operation the council has been running and experience of managing community related objectives. Tunbridge Wells has for some years successfully worked with Fusion leisure to deliver its indoor leisure facilities and related

community objectives with Active Tunbridge Wells whilst reducing the subsidy paid by the council.

The risks of this option would be the dilution of involvement for the council – the representation on the new Board would have to be negotiated, and the risk that the new host would not have sufficient resources to invest in the facilities. Most of the existing trust partnerships require significant levels of investment from the council either through facilities improvement and/or re-investment of tax relief (National Non-domestic Rates and VAT).

Active Life may be able to improve their financial position in the medium term and move toward a reduced management fee in the medium term by merger with another trust. The reduction would involve the installation of advanced environmental equipment in the leisure centres and the council delivering fully serviced leases in exchange for transferring other services currently provided by the council to Active Life. These developments would be alongside installation of new equipment at Herons and Kingsmead together with possible changes to the membership structure in order to compete more effectively with local leisure providers. This would also coincide with the coastal facility improvements coming on-line.

As part of this, Active Life may enter into an arrangement with a like minded trust such as Sencio leisure, who have directly expressed to the panel their desire to work with Active Life. Testing this combined management model, could be included in any future procurement exercise.

The panel feel that any partnership initiative and the subsequent financial predictions are as yet untested and should be considered as part of the evaluation under recommendation 7.

12. Conclusion

The panel have considered the operation and delivery of leisure services on the national and local level together with the council's role in delivering overall indoor leisure provision.

The panel found that in the public sector, rising costs of provision together with the tax advantages had meant a general move away from in-house operation to arms length leisure trusts, such as Active Life. However, a generally mature leisure market has meant that the most successful trusts have diversified and acquired new business. There is also a growing trend for councils to contract out to a few, large provider trusts. The panel found that Active Life had only recently begun moves to diversify its operations and this relied on the city council to financially underwrite the project at a time when both the trust and council finances were coming under increasing pressure.

The panel felt that a good balance of facilities across the district and evidence that despite competition, council owned local leisure facilities provide an important service to the community, although the condition of the Canterbury facilities was not as good as other providers.

The panel also saw evidence of other trust operations and worked with specialist leisure consultants to help it consider the future of the council facilities. The panel felt that on balance other trust operations were delivering successful services whilst diversifying and making best use of economies of scale and the council may gain better value by opening the current trust operations out to external competition.

The panel feels that any competition should be on the basis that the current levels of leisure provision should be maintained, and that Active Life should be able to compete in the procurement process. The procurement process and future deliver of leisure services will depend in a large part on the future of the Kingsmead centre, therefore the future maintenance and upkeep of the site should be clearly set out before any external competition for council leisure services.

The review and recommendations aim to address the main issues around the delivery of indoor leisure in the district and point a way forward to a more sustainable model of delivery.

Contact Officer: Dan Hamlin Telephone: 01227 862 059

13. Appendices

Appendix 1 – List of Witnesses

Appendix 2 - Review Scope

Appendix 3 - List of Kent Leisure Trusts

Appendix 4 – List of sports facilities in the Canterbury District

Appendix 1 - List of Witnesses

The Scrutiny Review Panel wish to take this opportunity to thank all those who contributed to its work, particularly those who hosted visits and attended to give evidence.

Council Officers

Suzi Wakeham – Head of Community Development and Outdoor Leisure
Janet Taylor – Deputy Head of Legal Services

Active Life Ltd

Gerry Knox – Chairman
Neil West – Chief Executive
Adam Kent – Finance Manager

Sencio Leisure Ltd

Gillian Shepherd-Coates – Chairman
Mark Whyman – Chief Executive
Jane Parish – Commercial Services Director
Adam Perry – Community and Centres Director

SLC Consultancy

Duncan Wood-Allum – Project Director
John Wood – Associate Consultant
Joanna Bussell – Strategic Legal Partner

Also present at SLC meeting:

Councillor Darren Ellis – CCC Portfolio Holder

Site Visits

In addition to the witness sessions the panel had conducted site visits, together with question and answer sessions, to the following local facilities:

Kings School Recreation Centre

Claire Reed – Centre Manager

Body and Mind Leisure

Darren Curley – Deputy Manager