ITEM NO: 6 Appendix D

Overview of the work undertaken to date and financial details

1. The examination of options for alternative means of managing Leisure and Cultural Services has been under consideration for some considerable time. In January 2001, Full Council approved the following motion: "This Council believes that some City owned or managed Leisure facilities would benefit from independent sector participation and that officers be requested to bring forward proposals within three months to further these objectives".

2. A number of alternatives were examined and the subsequent Best Value Review of Leisure, Libraries and Culture during 2002/3 included further appraisal of possible alternative options.

3. This indicated that different models could potentially be applied to different areas of Leisure, Culture and Tourism Division (LCT), some more easily than others. There appeared in the early stages to be no "catch all" solution and that the development of a mixed economy that might include Not for Profit Trust, management contracts, Private/Public Partnership models and continued direct management, would be the most probable outcome.

4. Subsequently three service areas have been externalised to management contracts (Guildhall, Fountains Café and Ski Centre), a private/public partnership was established at Millbrook recreation ground, and a full feasibility for the transfer of most of the remaining LCT areas to a Charitable Trust was commissioned.

5. The detailed feasibility for the establishment of a Leisure Trust included all Leisure and Culture services was undertaken. The complexity and scale of such a transfer amongst other things, led to the decision to proceed no further with the option at Full Council in May 2005.

6. An Audit Commission report published in 2006 entitled "Public Sports and Recreation Services – Making them fit for the future" recommended that councils should be "appraising the options for delivering sports and recreation services." It was therefore deemed appropriate that an options appraisal for the management and operation of sport and recreation services should be carried out.

7. The principal financial benefit of the Trust model is in the fiscal relief available, primarily in relation to National Non-Domestic Rates (NNDR) and Value Added Tax (VAT), which are primarily accrued from the Sport and Recreation service as opposed other parts of Leisure and Cultural Services. There was therefore deemed potential in exploring the Trust option for Sport and Recreation and this was included in the options appraisal.
8. The Leisure and Culture Scrutiny panel received a report on 6th Feb 2007, setting out the results of the appraisal. It demonstrated that there would be no net annual saving from establishing a new trust model in the short term.

The fiscal benefits would be virtually eradicated by the additional statutory costs, dislocation costs and the contingency and profit, although the contingency / profit element would not be needed in the long term once the trust had built up adequate financial reserves.

9. The report advised that in establishing a new leisure Trust account has to be taken of the extra costs associated with operating a new independent organisation. These include the costs of disconnecting from the Council:
    - Recruitment of a Finance Director
    - Additional Insurance (the Councils Insurance costs would not significantly reduce as a result of externalising to a trust)
    - Costs of a stand alone financial system
    - Banking and credit card management charges

10. In addition a separate Trust would incur statutory charges in relation to the Companies Act:
    - External audit
    - Company secretary fees
    - Additional independent legal fees
    - Charitable registration

11. Commercial developments could improve this situation but it would be unlikely that a newly created trust could secure significant levels of capital to deliver commercial investment within the first five years of trading. The contingency / profit element of any management fee would need to build up to a significant balance, both to provide investment capital and to assist in developing credibility and assurances with any lenders. The report advised therefore that the problem of property backlog repair and maintenance and future lifecycle costs would not be resolved by this option as all responsibilities and risk would remain with the Council.

12. The report of the 6th February 2007, also presented information regarding the potential of a 10 year management contract for Bitterne Leisure Centre, Chamberlayne Leisure Centre and the Quays Swimming and Diving complex. It proposed that soft market testing for alternative types of contract would be helpful in steering the Council to an appropriate procurement option. Soft market testing subsequently commenced in late 2007. This market testing informed the recommendations of the Cabinet report dated 28 July 2008 which instigated the Sport and Recreation Partnerships project procurement.

13. It is important to note that the tendering process has not excluded established Charitable Trusts from the contract opportunity; indeed the preferred bidder is a registered charity.

14. The tables provide details of the costs of providing the facilities over the last 3 financial years together with a forecast for the current financial year.

Sport and Recreation Facilities

Income / Expenditure		Actual 2006/07	Actual 2007/08	Actual 2008/09	Forecast 2009/10	
Income	Fees, Charges & Rents	(3,858,851)	(3,895,154)	(3,828,569)	(3,735,500)	
	Grants / Contributions	(49,923)	(23,923)	(17,239)	(249,300)	
Income Total		**(3,908,774)**	**(3,919,077)**	**(3,845,808)**	**(3,984,800)**	
Expenditure	Salaries & Wages	2,807,611	2,703,567	2,713,568	2,902,400	
	Other Employee Costs	91,281	113,265	132,674	125,900	
	Premises Costs	872,594	946,095	1,001,680	1,008,500	
	Transportation Costs	51,273	50,497	40,533	39,100	
	Supplies & Services	1,015,743	1,064,812	830,161	764,100	
	Internal Recharges	7,212	1,176	1,400	0	
	Internal Charges	34,051	18,046	20,799	5,100	Note 1
Expenditure Total		**4,879,765**	**4,897,458**	**4,740,815**	**4,845,100**	
Total		**970,991**	**978,381**	**895,007**	**860,300**	
Marketing		146,182	215,355	308,985	318,873	
Overheads		309,078	362,398	323,916	276,612	
Grand Total		**1,426,251**	**1,556,134**	**1,527,908**	**1,455,785**	
Corporate Repairs and Maintenance		389,000	389,000	389,000	389,000	Note 2
Total Including Corp R&M		**1,815,251**	**1,945,134**	**1,916,908**	**1,844,785**	
Capital Expenditure		0	0	0	**240,000**	Note 3

Notes

1. Internal charges include landscaping work, off street parking and building contracts.
2. Based on 6 year average.
3. Quays extension plus section 106 funding for pitch improvements.

Golf

Income / Expenditure		Actual 2006/07	Actual 2007/08	Actual 2008/09	Forecast 2009/10
Income	Fees, Charges & Rents	(486,222)	(469,232)	(472,988)	(523,000)
	Grants / Contributions	0	0	0	0
Income Total		**(486,222)**	**(469,232)**	**(472,988)**	**(523,000)**
Expenditure	Salaries & Wages	64,005	64,333	99,901	90,071
	Other Employee Costs	2,293	2,879	1,945	2,616
	Premises Costs	9,526	18,355	48,386	25,361
	Transportation Costs	0	0	180	114
	Supplies & Services	19,565	18,674	15,453	21,039
	Internal Charges	937	902	1,185	0
Expenditure Total		**96,326**	**105,143**	**167,050**	**139,200**
Total		**(389,896)**	**(364,089)**	**(305,938)**	**(383,800)**
Marketing		9,256	8,690	12,626	12,245
Overheads		32,538	29,953	32,403	26,629
Grand Total		**(348,102)**	**(325,446)**	**(260,909)**	**(344,926)**
Grounds Maintenance		274,074	271,257	304,200	304,500
Total Including Grounds Maintenance		**(74,028)**	**(54,189)**	**43,291**	**(40,426)**
Capital Expenditure		0	0	0	0