

Overview and Scrutiny Committee Report

Ward(s) affected: Whole Borough

Report of Director of Environment

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Operation of Leisure Management Contract 2018-19

Executive Summary

Each year, a review of the Annual Report from Freedom Leisure (FL) is undertaken. This report outlines the process by which this is carried out and also gives a summary overview of the contractor's performance on its operation of the Council's leisure facilities; Guildford Spectrum, Guildford Lido and Ash Manor Sports Centre for the eighth contract period (from 1 April 2018 to 31 March 2019).

The Council entered into a 10 year Leisure Partnership Agreement (LPA) with Greenwich Leisure Ltd (GLL) with effect from 1 November 2011. GLL has subcontracted the service to Wealden Leisure Limited trading as Freedom Leisure.

The LPA is a substantial document which includes as one of its component elements a detailed service specification specific to each site covering all aspects of service delivery, e.g., opening and closing hours, water and air temperatures, maintenance regimes, health and safety compliance requirements, staffing levels and qualifications. It also sets out the objectives for the service provision.

The performance of the contractor has been monitored across the sites against set criteria by the Council's Leisure Client team.

The operation of the catering offer at Guildford Spectrum is linked to, but does not fall directly within, the LPA. Since FL took over the direct catering provision in 2016, there have been improvements however there are still opportunities for further improvement.

Figures for the financial year 2017/18 were materially affected by the closures required for essential maintenance on behalf of the Council and by FL. The LPA includes provision for a loss of profit claim where Council essential maintenance work results in the closure of the facility or part thereof. This needs to be taken in to account when comparing the 2018/19 figures with the previous year.

Work has continued on the 10 Year Plan (also known as the Life Cycle Maintenance Programme or 'LCM' Programme) that was produced and agreed by GLL, FL and officers. This is an ongoing project to ensure the plan is kept up to date and therefore reflects the level of investment that is likely to be required for plant and equipment at each site during a 10 year period.

The full annual report for the contract period 2018/19 is shown at Appendix 1. The table in Section 4 shows a selection of the key performance indicators from the operator agreement. There has been a substantial improvement in the financial performance for 2018/19 compared to recent years although the contract's final position was a deficit of £82,935 following a significant capital contribution, which was well above the original budgeted annual provision. As a surplus was not made, there is no additional payment due to the Council. Further explanation can be found under item 7 of this report.

The Council receives a management fee in monthly instalments for the operation of the venue. £1,045,172 was received in 2018/19.

FL's approach to categorising income and expenditure differs to the approach used within their bid calculations but is their standard approach across all their sites. These factors make direct comparison difficult.

In the opinion of the Client team, operationally the performance of FL has been generally acceptable during the period.

Overview and Scrutiny sub group monitoring process 2018/19

A sub-group of three councillors volunteered to represent the Overview and Scrutiny Committee (Scrutiny sub-group) to consider the FL annual report in detail to replace the presentation and detailed consideration of the report by the full committee. The sub-group is invited to join the Lead Councillor and officers in attending the annual report presentation by Freedom Leisure. It is thought that this approach leads to a more detailed and effective performance review.

Councillor Steel and the sub-group (Councillors Booth, Potter and Manning), were invited to a detailed briefing on the contract from the Council's Leisure Client team. Those that were unable to attend the briefing, were provided with copy briefing papers and were given the opportunity to meet again or ask any questions.

The newly formed Scrutiny sub group were all invited, however due to various reasons outside of the councillors' control, only Councillor James Steel was available for the annual report presentation on the day.

Councillor Steel asked a number of questions in the presentation meeting. Key areas for discussion were the reduction in membership numbers and reduced customer feedback. The attendance figures for 2018/19 were also queried because the reported attendances were significantly up on last year. The minutes at Appendix 2 details the presentation provided and the responses to the questions asked of FL in relation to the Annual Report.

The minutes of the presentation meeting were circulated to the Scrutiny sub-group. This gave the opportunity to those who could not attend the presentation to provide any feedback or submit any questions.

Cllr Steel expressed the view that *"on the basis of the information provided in the annual report and presentation, he was satisfied that Freedom Leisure are complying with the contract agreed with the Council"*.

Suggested items for Overview and Scrutiny to consider

That the committee considers and comments on:-

- (1) the performance of FL in relation to the operation of Guildford Spectrum, Guildford Lido and Ash Manor Sports Centre detailed in Appendix 1
- (2) the list of LPA objectives detailed in item 3.4

1. Purpose of Report

- 1.1 To provide an overview of performance of the leisure contractor operating Guildford Spectrum, Guildford Lido and Ash Manor Sports Centre for the contract year period 1 April 2018 to 31 March 2019.
- 1.2 To provide councillors with an opportunity to comment on the process of the Scrutiny sub-group's review of FL's annual report presentation.

2. Strategic Priorities

- 2.1 The provision of the services detailed within this report support the Corporate Plan in respect of the Community theme in **enhancing sporting, leisure, cultural, community and recreational facilities;**
 - by attracting visitors to the borough and making Guildford a more attractive place to live in. The venue offers a range of employment opportunities and facilities that businesses need
 - through providing an enhanced leisure offer in an attractive, vibrant town
 - through promoting physical activities and contributing to public health

3. Background of the contract

- 3.1 The Council entered into a 10 year Leisure Partnership Agreement (LPA) with Greenwich Leisure Ltd (GLL) with effect from 1 November 2011, to deliver leisure services throughout the borough at Guildford Spectrum, Guildford Lido and Ash Manor Sports Centre. GLL has subcontracted the service to Wealden Leisure Limited trading as Freedom Leisure (FL).
- 3.2 A very detailed and complex contractual agreement, the Leisure Partnership Agreement (LPA), is in place between GLL and the Council. GLL and FL have a contractual agreement that mirrors the contents of the LPA.
- 3.3 The LPA is a substantial document which includes as one of its component elements a detailed service specification specific to each site covering all aspects of service delivery, e.g., opening and closing hours, water and air temperatures, maintenance regimes, health and safety compliance requirements, staffing levels and qualifications.
- 3.4 The LPA sets out the following objectives for the service provision:-
 - to improve the health and well-being of their communities through increased participation
 - to use sport and leisure to bring communities together
 - to enable access to services by specific groups with identified needs
 - to encourage and provide affordable and sustainable local facilities and services
 - to explore partnerships with other organisations where these will benefit the community
 - to work with clubs and voluntary organisations in the borough to develop their activities and skill levels

- to encourage investment in the facilities to maintain and enhance the quality of service
- to bear in mind the rights, needs and aspirations of facility users and staff
- to demonstrate value for money and continuous improvement
- to recognise and maximise commercial opportunities in the facilities
- to improve the financial 'bottom line' of the Council.

- 3.5 This report reviews the eighth contract period from 1 April 2018 to 31 March 2019. The performance of the contractor has been monitored across the sites over a number of criteria.
- 3.6 The 2017-18 results, used in the report for comparison purposes, were materially affected by the closures required for essential maintenance on behalf of the Council and by FL. Where, in fulfilling their responsibilities under the LPA, FL's maintenance requires a closure, FL must absorb the financial loss. The LPA includes provision for a loss of profit claim where Council essential maintenance work results in the closure of the facility or part thereof. In this case, phased closures of the pool halls were required in order to facilitate the completion of the third phase of the structural steelworks and roof works. Claims are made by calculating the potential lost income and adjusting for unspent expenditure.
- 3.7 The operation of the catering offer at Guildford Spectrum is linked to, but does not fall directly within, the LPA.
- 3.8 Historically the catering was outsourced and generated in excess of £400k rental income annually. Due to the poor performance of the external company, FL took the catering operation in house as it was impossible to get a third party to commercially offer anything like the previous rental income. It was pleasing that in January 2019, the catering facilities were awarded a 5 star food hygiene rating. This is a significant improvement on the previous rating when it was operated by the last external company.
- 3.9 2018/19 is the fourth full year of the catering being managed in this way. FL decided to take over the direct operation of the vending at Guildford Spectrum in 2017. A third party company had previously operated the vending provision with the income declared into the LPA accounts, however now FL have chosen to declare the income and expenditure associated with their operation of the vending through the catering account. This makes comparisons year on year difficult as a result as last year was the first year the vending was included in the catering account.
- 3.10 The figures overall show a growth in catering performance in the period, with the Satellites and Hospitalities section showing significant improvement on last year (see Appendix 1 – Catering Profit and Loss report). The Bowl catering offer has also been a success, which again is a reflection of the previous investment made to improve the catering offer in that area. Burrito Loco, who took over the Wimpy outlet at the beginning of September 2018, has proved very popular amongst customers and is a vast improvement to the previous offer.
- 3.11 There has been significant work done on lifecycle maintenance plans during this period to produce the detailed ten year plan. This plan was produced and agreed by GLL, FL and officers and represents a significant improvement in the long term of plant and equipment replacement planning (as required in the contract).

The nature of this plan requires it to be reviewed and updated on an ongoing basis. Section 7 of the Annual Report (Appendix 1) details the work undertaken in 2018/19.

Overview of the existing monitoring arrangements

- 3.12 The Council's Leisure Client team monitor the LPA. Monitoring includes regular formal meetings, daily discussions with key FL personnel and regular visits to site, specific walk rounds to monitor service delivery, assessment of information provided by FL, regular use of the facilities as a customer, and formal and informal discussion with customers, partners and FL staff.
- 3.13 Quarterly formal client monitoring meetings are diarised considering a standard agenda covering financial performance, technical issues, quality of service including customer comments, marketing development, and health and safety. The Lead Councillor for Leisure, Heritage, Tourism and PR and Communications, Councillor James Steel, attends the quarterly meetings.

4. Performance of the Contractor – Key Performance Indicators

- 4.1 The following tables below show a selection of the key performance indicators from the operator agreement relating to financial performance, operating performance and catering financial performance.
- 4.2 FL's approach to the chart of accounts differs to the approach used within their bid calculations. The stated bid figures have not been adjusted for the contractual RPI uplift on management fee or price increases. These factors make direct comparison difficult.

KPI – Key Financial	Spectrum	Lido	Ash	Contract	Bid target (at point of bid)	Notes
Income (£)	9,922,199 (LY) 9,473,177	722,551 (LY) 533,283	387,644 (LY) 358,944	11,032,394 (LY) 10,448,404	9,059,440	The 2017/18 figures for Spectrum include the loss of profit claim due to the facility closures for maintenance. The reported Ash income for 2017/18 includes a GBC contribution to the All Weather Pitch (AWP) and GBC's cost of the sub base works.
Expenditure (£)	8,577,909 (LY) 8,718,232	715,525 (LY) 608,307	338,447 (LY) 321,993	9,631,881 (LY) 9,648,532	7,646,670	Inc central support charges Exc. management fee & repayments
Management fee & repayments* (£)	* 1,265,657 (LY) 1,146,114	(101,889) (LY) (103,533)	41,924 (LY) 124,263	1,205,692 (LY) 1,166,844	8,102,792	* 2017/18 figure for Spectrum includes repayments for all 3 sites (e.g. Lido slides) and joint contract enhancement (Guildford/Woking) The reported figure for Ash for last year includes GBC's expenditure on the AWP.
Annual Report position (deficit) / surplus	78,633	108,915	7,273	194,821	0	Excludes capital contribution above the annual provision
2018/19 Capital	265,057	12,699	0	277,756		See page 14 of Freedom

contribution variation						Leisure's Annual Report item 3.4.1
Net contract (deficit) / surplus	(186,424)	96,216	7,273	(82,935)		

4.3 Income was up at each site against last year, with the Lido performing exceptionally well. This was largely down to the successive spell of hot weather but also due to the introduction of online bookings for swimming in July 2018 which enabled FL to secure bookings and assisted in alleviating the queues. Ash Manor also performed well. The replacement of the All Weather Pitch in the previous year meant that more bookings could be made. FL have reported that occupancy is higher than it has ever been. While expenditure was up at Ash and Lido in 2018/19, the reduction in expenditure at Spectrum in addition to the utility savings attributed to the newly installed Combined Heat and Power (CHP) unit meant that overall, expenditure was down across the contract against the previous year, resulting in a significant reduction in the contract deficit. This is detailed under item 7.0 below.

KPI – Key Operational	Spectrum	Lido	Ash	Contract	Bid or previous year	Notes
Attendances	1,761,509 (LY) 1,524,327	132,800 (LY) 82,726	84,833 (LY) 81,160	1,979,142 (LY) 1,688,213	BID 1,920,399	Attendances at Spectrum for LY directly affected by closures
Memberships	2,522 (LY) 2,587	72 (LY) 104	612 (LY) 640	3,206 (LY) 3,331	(17/18) 3,456 (16/17) 3,685 (15/16) 3,728	DD/Annual memberships – loss at all sites
Active card	n/a	n/a	n/a	29,940	(LY) 25,998	
Green Active card (concessions)	n/a	n/a	n/a	4353	(LY) 4,119	
Overall customer satisfaction rating	81% (LY 79%)	90% (LY 84%)	94% (LY 87%)	n/a	n/a	
Compliment	n/a	n/a	n/a	151 (LY 196)		See page 24 of Appendix 1 for summary statistics
Complaint	n/a	n/a	n/a	579 (LY 711)		See page 25 of Appendix 1 for summary statistics

4.4 In the opinion of the Leisure Services Client team, operationally the performance of the contractor has been generally acceptable during the period.

KPI – Key Catering Financial	2018/19 (including vending)	2017/18 (including vending)	2016/17 (excludes vending)	Notes
Spectrum Catering Income	1,929,347	2,059,577	1,857,135	Figures for 2017/18 affected by profit claim for closures (£16,378)
Spectrum Catering Expenditure	1,422,300	1,594,691	1,573,356	Figures for 2017/18 affected by profit claim (reduced expenditure) for closures
Spectrum Catering Profit / (loss)	507,047	464,886	283,779	* 16/17 figure not directly comparable with 17/18 and 18/19 due to vending now being included within the reported income at Spectrum

4.5 Freedom Leisure's full annual report for the contract period 2018/19 is shown at Appendix 1.

5. Health & Safety

- 5.1 In the contract year, there were 710 accidents across the Guildford contract (123 fewer than last year). This is below the industry target of 1 accident per 1,000. There were two incidents during the period that required reporting to the Health & Safety Executive (HSE) under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations). One of the incidents occurred at Guildford Spectrum, and the other at Guildford Lido. Freedom Leisure has been working with the Council's Environmental Health team and the Leisure Client team to make further improvements where possible.

6. Overview and Scrutiny sub group monitoring process 2018/19

- 6.1 A sub-group of three councillors (Councillors Booth, Potter and Manning) volunteered to represent the Overview and Scrutiny Committee (Scrutiny sub-group) to consider the FL annual report in detail. As above, a separate briefing session was arranged for those councillors and the Lead Councillor (which Cllr Manning attended) and the briefing papers were circulated to the other councillors who were unable to attend.
- 6.2 The presentation of the annual report was very shortly after the appointment of the Scrutiny Sub Group and due to holiday, illness and unavailability, only Councillor Steel was able to attend the presentation on behalf of councillors on this occasion. The minutes of the meeting were circulated to all four councillors and the opportunity was given for any questions to be asked subsequently to the meeting.
- 6.3 The Freedom Leisure Area Manager, Steve May, delivered a presentation on site to Councillor Steel and the Leisure Client team covering this contract year's performance by Freedom Leisure. Councillor Steel considered the contents of the report and raised a number of questions across a wide range of service related topics. The minutes of this meeting on 21 August are at Appendix 2.

7. Financial Implications

- 7.1 The council receives a management fee in monthly instalments for the operation of the venue. £1,045,172 was received in 2018/19. This includes £90,000 (plus subsequent Retail Price Indices (RPI) increases) to reflect projected efficiency savings through the joint award of both the Guildford and Woking leisure contracts to the same contractor. This management fee is subject to RPI adjustment each year for the ten-year life of the initial contract.
- 7.2 If FL exceeds the financial performance detailed within their bid, 100 per cent of any surplus comes to the Council with 50 per cent of the surplus ring-fenced for spending on the three venues in the contract and 50 per cent allocated by the Council for any purpose of its choosing. Conversely, should the operator fail to achieve the targeted level of net income, they would still be responsible to pay the full contracted sum to the Council.
- 7.3 The capital contribution detailed within the accounts has traditionally been reported as the set budget amount to recognise that it is effectively an annual contribution to the replacement of plant and equipment i.e. the funding provision for the 10 year plan. In 2018/19, Freedom Leisure have reported an operating

surplus within their annual report however this does not take into account that the capital contribution has exceeded the budgeted annual provision. They have detailed this year's increased contribution (£277,756 over the annual provision) in item 3.4.1 of their report. The final position of the contract is therefore a deficit of £82,935 (please see table in item 4.2 of this report). Whilst there is no surplus payment due to the Council for this period, this is a significant financial improvement on recent years within the contract.

- 7.4 We have also made FL aware that the management fee bid figures that are used in the report at Appendix 1 are averaged management fee figures rather than the specific year budget figures for 2018/19.

8. Legal Implications

- 8.1 Section 3 of the Local Government Act 1999 requires that the Council as a best value authority "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". Reviewing and, where required, monitoring the Council's contractual approach is an important way in which that obligation can be fulfilled.
- 8.2 Any formal changes to the current contractual arrangements will have to be agreed with GLL/Freedom Leisure and varied by agreement.
- 8.3 As the Overview and Scrutiny Committee has no decision-making powers, any recommendations that may arise would need to be referred to the relevant decision making body of the Council for a decision.

9. Human Resource Implications

- 9.1 There are no HR implications arising from this report.

10. Suggested items for Overview and Scrutiny to consider

- 10.1 Councillors may wish to consider whether:-
- to comment on the performance of FL in relation to the operation of Guildford Spectrum, Guildford Lido and Ash Manor Sports Centre as detailed in the annual report at Appendix 1
 - to comment on the LPA objectives detailed in 3.4 above

11. Conclusion

- 11.1 There has been a significant improvement in the net financial figures for the contract. The reduced contract deficit for 2018/19 was largely down to the reduced staffing expenditure at Spectrum combined with Lido's exceptional income performance. Ash Manor's performance was also strong, which is particularly positive when considering the ever-increasing surrounding competition. The installation of the Combined Heat and Power (CHP) unit at Guildford Spectrum has also contributed to utility savings.
- 11.2 The catering offer at Spectrum continues to improve.
- 11.3 The main areas causing concern were the fall in memberships, the reduced customer feedback and project contingency planning. The minutes at Appendix 2 detail the responses to the questions asked of Freedom Leisure in relation to these and other areas of service provision.
- 11.4 The meeting concluded that whilst there was scope for further developing and enhancing the offering to the community, the performance of FL during the period was satisfactory and generally in accordance with the expectations of the Council.
- 11.5 The review of the annual report by the Scrutiny sub-group was hampered by circumstances this year. Councillor Steel felt there was still an effective review of the annual report although he recognised additional councillor attendance would have enhanced the process.

12. Background Papers

Freedom Leisure Annual Report Presentation 2018/19

13. Appendices

Appendix 1 – Freedom Leisure Annual Report 2018/19

Appendix 2 – Minutes of Annual Report Presentation, 21 August 2019