

OVERVIEW AND SCRUTINY COMMITTEE 1ST March 2018

**LEISURE AND CULTURAL SERVICES – LOCAL AUTHORITY TRADING COMPANY
BUSINESS CASE (LATC)**

Relevant Portfolio Holder	Councillor Pat Witherspoon
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering, Director of Finance and Resources John Godwin, Head of Leisure & Cultural Services
Wards Affected	All
Ward Councillor Consulted	No
Non-Key Decision	

1. SUMMARY OF PROPOSALS

- 1.1 To advise Members on the progress that has been made following approval in October 2017, in principal, to set up a not for profit, Teckal compliant, Local Authority Trading Company (LATC/ NewCo) to operate a number of the Council's leisure and cultural services.
- 1.2 To present the report prepared by V4 Consulting with input from officers and Members outlining proposed governance arrangements for the NewCo, and financial and staffing implications
- 1.3 To provide a proposed timeline and key milestones for the establishment of the NewCo and the transfer of services to it.

2. RECOMMENDATIONS

The Overview and Scrutiny Committee is asked to consider the Leisure and Cultural Services – Local Authority Trading company Business Case report and to determine whether to make any recommendations in respect of this matter to the Executive Committee for consideration on 6th March 2018.

3. KEY ISSUES

Background

- 3.1 As Members will be aware at the Full Council meeting on 20th November 2017 a feasibility study was debated with regard to the preferred model for a number of services currently delivered by the Council.
- 3.2 At the meeting, Full Council passed the Executive recommendation from the 31st October 2017, which was that *“approval be given, in principle, to set up a not for profit, Teckal compliant, Local Authority trading company to operate the Council's Leisure and Cultural Services and that a further report to Executive and Council be commissioned by officers in relation to a full business report for this model to include all governance, financial and staffing implications”*.

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- 3.3 Over the past 4 months a large amount of work has been undertaken by a cross section of the Council's officers and our specialist support team from V4 Consulting in order to bring forward the detailed Business Case that is included as Appendix 1 to this report.
- 3.4 The project has been managed in line with the principles of Prince II Methodology but it has been adapted to suit the nature of the work that has been undertaken.
- 3.5 A number of key work stream/products have been undertaken through a variety of methods which has included workshops, away days, onsite inspection and desk top reviews.
- 3.6 During the project the following have been key areas for review and further detail on these is found in the Business Case.
- Governance
 - Company Structures
 - Business Planning
 - Support Services
 - Funding Mechanisms
 - Performance Regime
 - Risk allocations
 - Respective responsibilities
 - Staff transfer – Transfer of Undertakings Protection of Employment (TUPE)
 - Asset transfer
- 3.7 With regard to the overall set up of the project, this has been established on a staged approach with each formal committee decision being treated as a gateway report to progress to the next stage. Key stage completion and commencement dates are shown below:
- Stage 1 – Concept and Feasibility 1st Sept 17 to 31st Oct 17
 - Stage 2 – Detailed Business Case & Sign Off 20th Nov 17 to 19th March 2018
 - Stage 3A – Transition & Agreement to Proceed 10th April 18 to 23rd July 18
 - Stage 3B - Implementation and Roll In 24th July to 30th Sept 18
 - Stage 4 – Transfer & Go Live 1st October 18
- 3.8 Following the completion of each stage the project documentation will be refreshed and reissued to the Project Sponsor and Project Board for approval.
- 3.9 The services which are considered to be within the initial scope of the NewCo remain as per the original list (October 2017) and are listed below:
- Abbey Stadium Sports Centre
 - Palace Theatre and Palace Youth Theatre
 - Forge Mill Needle Museum and Bordesley Abbey Visitors Centre inc. access to Bordesley Abbey Ruins
 - Community Centres (Windmill, Oakenshaw, Batchley and Winyates Green)
 - Pitcheroak Golf Course
 - Allotments (all sites)

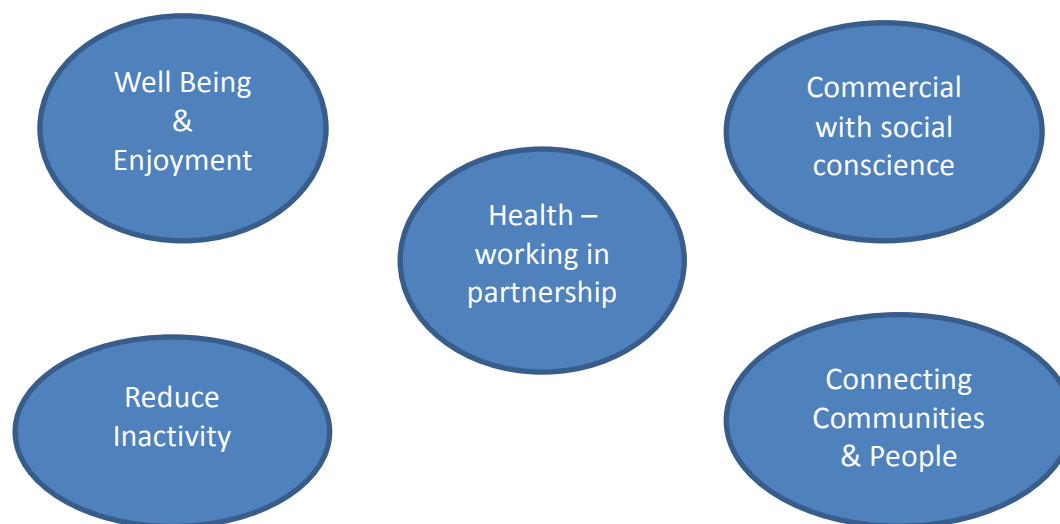
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- 3.11 All other services are considered to be out of scope at this stage although NewCo will be constituted so as to allow other services to be transferred to it at the Council's discretion in the future. Officers will explore opportunities for additional service transfer depending on the added value they can offer the company. It is proposed that business cases relating to Arrow Valley Countryside Centre, BMX and Learning on Line are brought to members for the July meeting for consideration.
- 3.12 Trade Union consultation and discussion have been held previously and during Stage 2 of the project to ensure that lines of communication are maintained and that there is a clear understanding of the Council's position with regard to the contents of the Business Case and the key assumptions that have been agreed through the relevant workshops to underpin its development. The key assumptions address the clarifications raised by the Trade Unions (TU) in relation to the areas of concern that have been raised and officers have fed back on this basis.
- 3.13 As part of the work of the project group extensive communication plans have been developed and implemented to ensure that contracted staff, casual staff and self-employed freelance contractors have made aware of the Council's decisions and the current work that is being undertaken.
- 3.14 Once a formal decision has been made these plans will be refreshed as part of the overall project documentation. We will then continue to work with staff and widen the communication plans out to key service users, stakeholders and contractors to ensure that the changes that may be proposed are implemented as effectively as possible to ensure that the current high standards of service delivery are maintained during this period of change.
- 3.15 Key drivers from the Oct 17 study and covering report remain as previously outlined and have been used to establish the key documents that will be developed to oversee the structure of the contract documents, the service specification and the measures framework.
- 3.16 There are a number of key considerations identified through discussions with portfolio holders and the feedback from the community in selecting the model of delivery for leisure and cultural services, including:
- Council retain ownership of all land and buildings.
 - Ability to get more people, more active, more often – for the same investment or less.
 - Can achieve (or exceed) the requirement to deliver a £440k per annum saving by the financial year 2018/19 and £480k savings in subsequent years which meet the requirements of the Medium Term Financial Plan (MTFP) .
 - Council retains influence over strategy, pricing and programming.
 - Governance designed to encourage performance improvement and innovation.
 - Facilities and services within scope have synergies and benefit from being together under single management body.
- 3.17 Furthermore details on these areas and the wider agendas that the NewCo will contribute to can be found in Section 1 (Page 5/6) of the business case and below:
- Worcestershire County Council Health & Wellbeing Plan

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- Redditch & Bromsgrove Clinical Commissioning Group Annual Plan
- Worcestershire Children & Young Peoples Plan
- Redditch Borough Council Sport and Physical Activity Strategy
- Redditch Health Profiles
- North Worcestershire Community Safety Anti Social Behaviour Plans

3.18 The workshop that was held with Portfolio Holders also determined what themes were encompassed within the direct Strategic Purpose that oversees these areas of “Provide Good Things to See, Do and Visit” and the indirect Strategic Purpose of “Help me to Live my Life Independently”. These are:



These themes underpin the delivery and achievement of the strategic purpose and have been used as part of the assessment of the preferred option.

3.19 The Council Plan sets out the key actions needed to deliver achievement of the strategic purposes. These are:

- Provide well maintained community parks and green spaces.
- Support the provision of leisure opportunities for the whole Borough.
- Provide a culturally diverse programme of events and arts activities.
- Help create flourishing Town and District Centres.
- Enhancing the retail, leisure and residential offer.
- Promote Independence and reduce social isolation.
- Help people to have active bodies and active minds.

3.20 When considering the service specification for the NewCo and the business plan to deliver these, the priorities highlighted above will be used to create the actions the company will focus upon.

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- 3.21 This will ensure that the Council's Vision and Strategic Purpose are embedded in the day to day design and delivery of its service provider and that the action taken by the company can be viewed against the wider social/community based objectives the Council wishes to address.
- 3.22 During the work undertaken by the project group it has been identified that there will be a need to monitor satisfaction with the NewCo on an annual basis to understand the benefits the changes have made in this area. In order to create a base line set of data, officers will introduce a work stream in Stage 3 of the project to set up and undertake an annual satisfaction survey that will provide base line data to review against future service out turns.
- 3.23 This requirement will then feature in the service specification and measures framework with the expectation that performance improves (satisfaction goes up) in the early years of the contract and then is maintained in later years.
- 3.24 Members will also see within the business report that the 2017 survey data sets as per section 3.17 of the October 2017 report have been used within the overall design of the NewCo. This will ensure that the local nature of the service that was a key area within the matrix that was used to assess the options within the feasibility study is built into the end product that is delivered. This information is shown in Section 1.5 (Page 10) of the business case.

4. Financial Implications.

- 4.1 As Members are aware from the Oct 17 report the MTFP includes initial savings of £440k in 2018/19 arising to £480k per annum from 2019/20 to be delivered in relation to the provision of an alternative model of delivery within Leisure and Cultural Services.

This saving is broken down into two key areas with £400k per annum being delivered from the NewCo with the remaining amounts being delivered from within the Council on the basis that savings will be generated from support services as there will be a reduction in the Council services requiring support once the NewCo is established. There will be a 'Sunset' agreement in place as detailed in the Business case to enable a transition of service transfer to the NewCo and to manage any associated costs. The 'Sunset' agreement currently provides for all services to be utilised by the NewCo for a period of at least 18 months.

- 4.2 Members will see that the Business case confirms that this level of saving will be achieved and provides a 4.5 year savings trajectory as shown in Section 4.1 (Page 32) and Section 4.4 (Pages 33 and 34). The table identifies the makeup of the savings and confirms an increase over the initial 4.5 year model of up to £520k at year 4.

The table shown in Section 2.3 (Pages 23 and 24) identifies that savings will be achieved primarily through 5 key areas including structure and taxation position, efficiency savings and business growth.

The table also confirms the detail around the balance for adjustments sum that is in place to meet the agreed non-recurring costs associated with the setup of the Company.

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- 4.3 Within Section 2 of the Business case the approach to National non-domestic rates (NNDR) is outlined and the approach taken to cost modelling is explained. At present financial modelling is based upon a 25% saving of the current costs, the NewCo would have the ability to apply for further concession to the Council of up to 100%. Should the NewCo be successful in its application this may yield further savings to the Council in future years.
- 4.4 Within the MTFP the 2018/19 budget has been adjusted to reflect a half year saving on £220k due to the transfer date being set at 1st October 18. This adjustment has been addressed through the 2018/19 budget proposals
- 4.5 Within the overall Business case and key responsibilities that are assigned to the NewCo is the responsibility for the ongoing repairs and maintenance to the majority of the building services. Within the schedule for the buyback of services members will note that the NewCo will be buying back services directly from Place Partnership Limited on the basis as the current Council Service Level Agreement (SLA), this change of responsibility will mean that the cost and budgets associated with such work will transfer to the NewCo as the control of the spend and management of the building will no longer rest with the Council.
- 4.6 It is proposed that any costs associated with the setup are met from the Council's existing Capital Programme and/or Capital Receipts in line with the flexibility from using capital receipts for revenue purposes if savings are generated from the initial investment.
- 4.7 It is proposed that any costs associated with restructures or redundancy for the period up to transfer and within 12 months transfer will be funded by the Council. The estimate of associated costs will be included in the Business Plan to be submitted in July 2018.
- 4.8 That all current equipment, fixtures and fittings that are currently used in the delivery of the in-scope services and supplied by the Council will be gifted to the NewCo in order to minimise set up costs. The company will then take on board responsibility for any future replacement and renewal costs in order to meet the needs of the business.
- 4.9 Included at Section 5.7 of the Business Case are a number of assumptions that have been recommended for consideration when the Business Plan is being developed for July 2018. It is worth noting that these assumptions are the general parameters that the team will address in developing the Business Plan. There remains work to be undertaken between March and July to model the financial impact of some of the assumptions, in particular in relation to pensions. A full actuarial report will be required to enable a final recommendation to be made in July about the pensions scheme in relation to new starters with the NewCo. There will continue to be discussion with the unions between March and July to address the issue.

5. Legal Implications

- 5.1 There are few legal implications or risks associated with setting up the NewCo, provided that no staff, assets or services are transferred to it and it does not commence trading.

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- 5.2 The legal implications of transferring staff, assets and services to NewCo and of NewCo commencing trading will be detailed to Members when they consider progressing with these steps in July 2018.
- 5.3 The Council would be able to trade through NewCo under the Local Government (Best Value Authorities) (Power to Trade) Order 2009, once Members have considered and approved a “Business case” for the enterprise. The Options Appraisal considered by Members in November 2017, the V4 Report, and the documents to be presented to Members for consideration in July 2018 will together constitute this “Business case”.

NewCo may be set up as a shelf company in advance of this, but Members may not decide to transfer services and allow it to commence trading until they have the full Business case to consider.

- 5.4 The proposal is that NewCo would be set up as a None Profit Distributing Organisation Social Enterprise (NPDO). The V4 Report outlines various taxation efficiencies in Section 2.3 (Pages 22, 23, 24 and 25) that arise from this approach. As a NPDO, the NewCo would not be able to distribute profits to its Shareholder (RBC), any surpluses generated would have to be reinvested by NewCo into its Services. If NewCo generates profits the Council as Shareholder should have reserved sufficient control to itself to allow it to be confident that any such reinvestment is in line with its’ and the companies objectives and offers best value to the Borough of Redditch.
- 5.5 Within the business case V4 Report at Section 2.8 (Page 26) there is a detailed overview of the governance arrangements that would be established and operated by the NewCo to ensure it operates effectively, has good corporate governance and meets the aims of the Shareholder. If the NewCo commenced trading on 1 October 2018 (or afterwards) the Council would need to keep these arrangements under constant review to ensure that NewCo continue to deliver best value to the Council and achieves the Council’s Strategic Aims.
- 5.6 If the Council decides not to transfer any services to NewCo in July 2018, NewCo could be dissolved. As NewCo would not have commenced trading, it would not have any liabilities. No staff would have transferred to NewCo prior to the July decision; the “TUPE cohort” would continue as RBC employees. There would be a financial risk to the Council at this point as savings identified would not be achieved.

6. Customer, Equalities and Diversity Implications

- 6.1 By continuing the work to identify customer need, demand, satisfaction and through the use of the measures dashboard the Council will ensure that all of the community are supported by the leisure offer and that the NewCo continues to deliver on the Council’s Strategic Objective.
- 6.2 From an equalities perspective the NewCo will operate in line with the Council’s existing practices and policies and it will be expected to support the Council’s objectives in this area and respond to reasonable requests through its business planning cycle.
- 6.3 Officers have as part of this process undertaken an Equality Impact Assessment which will be used as Stage 3 progresses to ensure the above objective.

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- 6.4 As part of the rebranding and development of the enhanced marketing offer a company name will need to be developed, this will be undertaken prior to the business plan being submitted. The new name will be established through market research and a user forum based approach. The new name will need to be predicated on being non geographic, capable of being multi layered to support all parts of the business across all types of media and it will look to create a unique brand identity to reflect the aspirational decisions being taken by Members.
- 6.5 As part of the establishment of the NewCo the continued support of our Volunteers is critical to the company's success, as such this will be a key area of work after the July 18 Business case is approved. As part of this, we will review our approach to volunteers to ensure it continues to support and ensure that we reflect the huge benefit they have to the organisation and the contribution they make to keep these keys services running by making them cost effective to deliver.

7. Staffing Matters

- 7.1 Due to the nature of the services provided within Leisure & Cultural Services there is a large cohort of staff. As part of the project work a list of potential staff that would be applicable for TUPE has been prepared and reviewed.
- 7.2 The tables below show the impact on the overall staffing structure within Leisure & Cultural Services.

Position	Head Count	Full Time Equivalent (FTE)
Stay at RBC	50	38.02
Proposed TUPE	62	44.44

Position	Head Count (including CASUALS)	FTE (including CASUALS)
Stay at RBC	75	38.52
Proposed TUPE	137	45.49

- 7.3 The approach to TUPE timeline, staff and union consultation has been discussed at this stage in preparation for future discussion. However until a formal decision has been made, the detailed consultation and engagement plans will not be formalised. They will though be in line with all statutory requirements and the Council's Change Management and Service Review policies.
- 7.4 The impact upon services and structure that are not in scope for transfer will be addressed by the Council through its formal change management and service review policies.
- 7.5 It is anticipated that this work will be undertaken as part of the wider management review that is required as part of the Council's efficiency statement for 2017 to 2021.

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8. Risk Management

- 8.1 As part of the Business case there is a detailed risk register that shows the key risks associated with the decision that Members are making and the risk mitigation methodology. This can be found as Appendix 2.
- 8.2 There is also a Project Risk Register for the Stage 2 process which has been used to oversee the production of the Business case.
- 8.3 Should approval be given to progress to Stage 3 a new Risk Register will be produced to cover these aspects up to the next key milestone which will be the sign off of the Business case in July 18.
- 8.4 At present this project has not been implemented onto the Council's Corporate Risk Register as it is subject to a formal Council decision. Should approval be given then this will be addressed as it will be a live proposal and it will then require a formal entry on the system.

9. APPENDICES

Appendix 1 – Business Report from V4 Consulting
Appendix 2 – Risk Register
Appendix 3 – Support Services Buy Back Schedule

10. BACKGROUND PAPERS

- July 11th 2017 Executive Committee Report
- October 31st 2017 Executive Committee Report

11. KEY

None

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