

additional papers 1



Overview and Scrutiny Committee

Tue 7 Jul
2015
7.00 pm

Committee Room 2
Town Hall
Redditch



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**If you have any queries on this Agenda please contact
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Overview and Scrutiny

Committee

Tuesday, 7th July, 2015

7.00 pm

Committee Room 2 Town Hall

Agenda

Membership:

Cllrs: Jane Potter (Chair) Gareth Prosser
Gay Hopkins (Vice- Paul Swansborough
Chair) Jennifer Wheeler
Joe Baker Nina Wood-Ford
David Bush
Andrew Fry

<p>3. Minutes (Pages 1 - 6)</p>	<p>To confirm the minutes of the most recent meeting of the Overview and Scrutiny Committee as a correct record.</p> <p>(Minutes from 9th June meeting attached, minutes from 24th June meeting to follow)</p> <p>(No Specific Ward Relevance)</p>
<p>5. Future Management of Redditch Outdoor Market - Pre-Scrutiny (Pages 7 - 44) Steve Singleton</p>	<p>To pre-scrutinise the final report concerning the future management of Redditch Outdoor Market.</p> <p>(Report to follow).</p> <p>(Abbey Ward)</p>
<p>6. Review of the Operation of Leisure Services - Pre-Scrutiny (Pages 45 - 98) Sue Hanley, Deputy Chief Executive and Executive Director (Leisure, Environmental & Community Services)</p>	<p>To pre-scrutinise the report concerning the future operation of Leisure Services at Redditch Borough Council.</p> <p>(Report to follow)</p> <p>(No Specific Ward Relevance)</p>



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Overview and Scrutiny Committee

24th June 2015

MINUTES

Present:

Councillor Jane Potter (Chair), and Councillors Joe Baker, Tom Baker-Price (substituting for Councillor Gay Hopkins), David Bush, Pattie Hill (substituting for Councillor Andrew Fry), Gareth Prosser, Paul Swansborough, Jennifer Wheeler and Nina Wood-Ford

Also Present:

Councillors Roger Bennett, Antonia Pulsford and Pat Witherspoon (Portfolio Holder for Leisure and Tourism)

Officers:

S Hanley, J Pickering and S Morgan

Democratic Services Officers:

Jess Bayley and A Scarce

11. APOLOGIES AND NAMED SUBSTITUTES

Apologies for absence were received from Councillors Andrew Fry and Gay Hopkins with Councillors Pattie Hill and Tom Baker-Price present as substitutes respectively.

12. DECLARATIONS OF INTEREST AND OF PARTY WHIP

There were no declarations of interest nor of any party whip.

13. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED that

under S.100 I of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006, the public be excluded from the meeting for the following matters on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12 (A) of the said Act, as amended.

.....
Chair

Overview and Scrutiny Committee

24th June 2015

Item 13 – Review of the Operation of Leisure Services – Pre-scrutiny

14. REVIEW OF THE OPERATION OF LEISURE SERVICES - PRE-SCRUTINY

(During consideration of this item Members discussed matters that necessitated the disclosure of exempt information. It was therefore agreed to exclude the press and public prior to any debate on the grounds that information would be revealed relating to the financial or business affairs of a particular person (including the authority holding that information).

15. FUTURE MANAGEMENT OF REDDITCH OUTDOOR MARKET - PRE-SCRUTINY

The Chair explained to Members that although the Future Management of Redditch Outdoor Market consultant's report had been requested it had not been provided for the consideration of the Committee. It was confirmed that under the Council's Constitution and relevant legislation, Overview and Scrutiny was not entitled to reports in draft form and this included the document the Committee had requested. It was within the gift of the Executive Committee to determine whether to release such documents and on this occasion it had declined the Committee's request. The Chair further explained that although the relevant lead Officer had agreed to attend the meeting, she had informed him that he was no longer required. The Committee would receive the report following its publication on 6th July 2015 and would consider it at its next meeting on 7th July 2015.

The Meeting commenced at 7.00 pm
and closed at 8.21 pm

Document is Restricted

EXECUTIVE COMMITTEE14TH JULY 2015**REDDITCH MARKET**

Relevant Portfolio Holder	Cllr Greg Chance - Portfolio Holder for Planning, Regeneration, Economy and Transport
Portfolio Holder Consulted	√
Relevant Head of Service	Kevin Dicks – Chief Executive
Ward(s) Affected	All
Ward Councillor(s) Consulted	N/A
Key Decision / Non-Key Decision	Key decision

1. SUMMARY OF PROPOSALS

- 1.1 Redditch Outdoor Market is one of three markets managed and operated through North Worcestershire Economic Development and Regeneration (NWedr), a shared service hosted by Wyre Forest District Council (WFDC) established under a Collaboration Agreement in May 2011.
- 1.2 The other markets in its portfolio are Bromsgrove and Kidderminster outdoor markets and the NWedr Client Management Group has instructed officers to explore options for the future operation and management of all three markets.
- 1.3 As part of this process, NWedr commissioned the consultancy arm of the National Association of British Market Authorities (NABMA) – National Market Place (NMP) to carry out a review and provide advice on the respective markets.
- 1.4 In addition and to help inform any future consideration, the Cabinet, at its meeting on 14th April 2015 resolved that the NWedr service invite informal expressions of interest from market operators for the future management of Redditch Outdoor Market and a report on the outcome of the process be brought to a future meeting of the Executive Committee.
- 1.5 At its meeting on 14th July the Executive Committee is requested to RESOLVE that
- 1) authority be given to undertake a procurement process in order to select an external provider in respect of the management of Redditch Outdoor Market for an initial term of 5 years with an option to renew for a further term of between 2 and 5 years;;
 - 2) the delegation in relation to the direct management of the market contained in the Collaboration Agreement relating to the provision of Economic Development and Regeneration Services, be amended to reflect the decision at 1);

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- 3) the conduct of a procurement and contracting process to select and appoint a contractor to manage Redditch Outdoor Market be delegated to Wyre Forest District Council in consultation with the Chief Executive and the Portfolio Holder for Planning, Regeneration, Economy and Transport and
- 4) delegated authority be granted to the Head of Legal Equalities and Democratic Services to amend the Collaboration Agreement referred to at 2)
- 5) the representations/issues and the proposed response of two letters sent to the Executive Committee be noted

2. RECOMMENDATION

- 2.1 **The Overview & Scrutiny Committee is asked to note the report and make recommendations and/or comments for the Executive Committee's to consideration, that it feels appropriate.**

3. KEY ISSUES**Financial Implications**

- 3.1 The 2015/16 revenue budget to support the existing operation is £87,950. It is anticipated that the appointment of an external contractor to manage the market would reduce this net cost. This would be subject to the payment of an agreed management fee to NWedr, whilst securing a guaranteed income for the proposed minimum five year contract term.

Legal Implications

- 3.2 NWedr currently directly manages the Redditch Outdoor Market on behalf of the Council, under a Collaborative Agreement relating to the provision of Economic Development and Regeneration Services between the Council, Bromsgrove District Council and WFDC, which is the host authority.
- 3.3 Although the proposal is seek to appoint an external contractor to manage the market, the management of that contract will still be undertaken by NWedr and the contract will be between the host authority, WFDC and the contractor.
- 3.4 The current delegation to WFDC is for the operation of the market in Redditch, including the letting of stalls and general day to day management of the market. Therefore, an amendment to the delegation in the Collaboration Agreement will be required to reflect the fact that instead of providing this direct service, the management of a contract with an external provider will ultimately instead be provided by WFDC (through NWedr).

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- 3.5 There are no employment /TUPE implications for the Council arising from the proposal to appoint an external contractor as the staff currently providing the service are employed by WFDC.
Service / Operational Implications
- 3.6 Redditch Outdoor Market is one of three markets managed and operated through NWedr, the others being Bromsgrove and Kidderminster Outdoor Markets. Kidderminster Outdoor Market is run by an external market operator, through the Shared Service, by way of a contract with Wyre Forest District Council. This contract is due to be tendered for renewal during 2015.
- 3.7 The NWedr Client Management Group has instructed officers to explore options for the future operation and management of Redditch and Bromsgrove markets.
- 3.8 In considering the future operation and management of Redditch Outdoor Market, the Council should aim to:
- create a competitive, diverse, sustainable and thriving market
 - maintain a regular income
 - minimise its costs
- 3.9 As part of the exploratory work, the consultancy arm of the National Association of British Market Authorities (NABMA) – National Market Place (NMP) was commissioned by NWedr to carry out a review and provide expert advice on the three respective markets. A summary of this advice, in so far as it relates to Redditch Outdoor Market, is set out in Appendix 1.
- 3.10 Whilst NMP recommend that the future interests of Redditch Outdoor Market would be best served by appointing an external contractor to operate the market, Members will recall the earlier report they considered in April 2015 and the decision that NWedr would undertake a ‘soft market testing’ exercise to identify potential interest from private operators in managing the Redditch Outdoor market.
- 3.11 During May 2015, NWedr subsequently invited informal expressions of interest, based on a draft specification as set out in Appendix 2, from existing market operators to help inform any future consideration as to whether or not to procure an external market operator.
- 3.12 The informal expressions of interest took the form of soft market testing and soundings from potential operators and existing operators with relevant experience, expertise and advice who commented on the draft specification.
- 3.13 The draft specification gave operators the option to comment on running a 3 or 5 day market utilising either the existing “fixed” stalls, using demountable stalls or using a mixture of both.

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3.14 With the exception of the comments set out in paragraphs 3.15.1 to 3.15.5 below, all the operators agreed that the draft specification included everything that they would expect to see within a tender document for the operation and management of an outdoor market.

3.15 A summary of the operators' comments is set out below:-

3.15.1 **Future stall holder charges:**

- “The Council may wish to include in any tender document, a requirement to set out increases in daily stall holder charges by a set amount each year so that traders would be able to plan for future increases.”

3.15.2 **Fixed stalls vs Demountable Stalls:**

- “Demountable stalls on each market days works best”
- “Having a cleared space for the market is best as it looks good even when empty, but then looks even better when a full market is within it.”
- “A cleared site is better”
- “Many traders like demountable stalls”
- “Existing stalls are unattractive and unappealing to operators. Removing them would be the best option”
- “If reduce to a 3 day general market can't really have a mix of both fixed stalls and pop up specialised markets to fill the gap in trading days”
- “RBC can't regenerate the market with the existing stalls because there will always be empty stalls – particularly in bad weather. With pop ups an operator can erect as many stalls as is required for the number of traders on each day – even if bad weather reduces the number of traders the market will appear busy.”
- “Empty stalls are so unattractive”
- “We would already be committed to paying the relevant costs ie business rates, purchasing stalls and putting them up and taking them down plus transport and storage”
- “Food market operators and traders often bring their own stalls – so a cleared space works for them”

3.15.3 **Five days vs 3 days:**

- “The right to operate on more than 3 days per week needs to be any tender – eg start as a 3 day general market and after first 6 months provide an assessment of providing additional market days and specialised markets”.

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- “5 day market is too much. There is more reason to go to a market if it is seen as an event”
- “3 day market is most attractive as it is an event”
- “We would not be interested in tendering for a 5 day market utilising the existing fixed stalls”

3.15.4 Fee Basis:

- “Flat fee acceptable” (4 operators stated this)
- “Redditch Borough Council pays an operator to run the market and if and when the market makes a profit, the operator receives a percentage of the profits and the Council gets an income as well.”
- “Consideration might be given to any tender document stating a number of thresholds and invite potential operators to submit the percentage fee to be received by the Council at each income threshold.”

3.15.5 Other Comments:

- “Saturdays are best days for specialist markets”
- “Current area is best location”
- “One operator would “need time” to build the market up”
- “A food court is a nice idea but potentially one for future – perhaps as a regular “fine food market”/specialised event rather than part of existing market.”
- “If time permits best to tender for a 1st October start (1st December too late) and avoid starting in January, February or March”.

3.16 In summary therefore, all existing potential operators consulted would:

- prefer to operate a future market from a cleared site, free from the existing fixed stalls
- provide and provide for the storage and transport of new demountable stalls and put them up and take them down on relevant market days
- seek to provide an alternative layout using the demountable stalls
- actively promote the market both to potential traders and to the wider public and
- seek to bring additional markets on both market days and additional days, using the existing market space and/or the designated events

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space as required, working alongside the Council's events team accordingly.

3.17 Given the feedback from potential operators, it is apparent that a 5 day per week market operating from fixed stalls is an unattractive proposition to them and including it within a tender document is likely to mean that there will be little or no interest in the market operation from external private operators.

3.18 At its meeting on 12 March 2013 this Committee approved the Recommendations of the Overview and Scrutiny Committee's scrutiny of the Redditch market.

The five outstanding operational recommendations are:

- Recommendation 3:
Reduce the number of general market days to no more than three days a week.
- Recommendation 4:
Hold more speciality markets on non general retail market operating days
- Recommendation 10:
Realign and extend the market layout past its current location
- Recommendation 12:
Explore the feasibility of introducing a covered food court area
- Recommendation 13:
Introduce alternative stalls to improve the overall visual appearance of the market

3.19 Given the advice from NMP and following the soft market testing with potential operators, it is considered that the five Recommendations would be best taken forward through the market being operated by an external provider.

Traders Representations

3.20 Members are also advised that two undated letters have been sent to the Executive Committee from market traders representatives. The first made representations, with regard to any potential future outsourcing of the market and a number of other related issues. The second letter referred more to promotion. The representations/issues and relevant comments are set out below:-

Letter 1: Representation/Issues	<i>Proposed response</i>
Reduction from five days per week to three days per week trading.	<i>The Executive Committee has previously approved the recommendations of the Overview and Scrutiny Committee to seek to reduce the general market days from 5 days to 3 days per week to make the market more of</i>

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	<i>an "event". In addition the potential exists for an external operator to aim to bring at least as many customers and traders to a three day market as are now on the five day market.</i>
The traders do not want the market in Redditch to be run by a private organisation.	<i>An external operator should have far more resources, experience and expertise to invest in the market than either the Council or NWedr. This should bring about a reenergised market which should benefit the traders and the town centre.</i>
We feel there has not been enough contact with the company dealing with the review.	<i>No company was appointed to deal with the review. Consultants were commissioned purely to review and provide independent, impartial advice for all three markets in NWedr's portfolio, plus give options as to their potential future operation and management.</i>
How many of your colleagues and yourself purchase from the market or communicate with traders on a regular basis.	<i>Noted.</i>
We feel that we have not had very much support from the council regarding concerns for the markets future	<i>Traders representatives were updated regarding the market's future at a meeting on 4th March 2015 and Traders were written to on 23rd March 2015 to advise that options were being considered for the future operational management of the market. Traders were also advised that on 14th April 2015, the Executive Committee was to consider a report seeking approval to invite market operator companies to put forward informal proposals and potential options as to how they might, in the future, consider operating one or both of the markets currently operated by NWedr. They were advised that any future proposals regarding the potential future management of the market will be the subject of further future reports to the Executive Committees and that traders will be kept updated. Traders were given details of who to contact in the event of any related queries. Traders were invited to a briefing meeting on 6th July to update them accordingly.</i>
Various shops in the local areas to the market have previously stated to traders that when the market is not in operation they have noticed a drop in sales on those days and find business quieter. This shows that the market	<i>The potential exists to seek tenders from operators on a minimum 3 days with options to increase trading days following an initial operating period. In addition, the opportunity should exist for an</i>

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<p>is the main hub of the square which in turn supports local business and economy.</p>	<p><i>external operator to bring in “specialised” markets on other days of the week. These potential opportunities should bring about a re energised market which should benefit the traders and the surround area.</i></p>
<p>Another option for the running of Redditch market is to talk to all traders about running it as a co operative</p>	<p><i>Any properly constituted organisation will be able to submit a tender for the management and operation of the market. If the traders wish to form themselves into a suitably constituted organisation and submit their tender then it will be considered alongside any other submission received. Additional support is available for this.</i></p>
<p>Pop-up style Stalls are not required and would mean unnecessary finances being used.</p>	<p><i>The Executive Committee has previously approved the recommendations of the Overview and Scrutiny Committee to look at the possibility of introducing pop up stalls. The existing fixed stalls do not provide the flexibility which the Council is seeking. Any pop up style stalls would be supplied by an external operator who would make the necessary business decision and finance them accordingly. Neither the Council nor NWedr would fund the acquisition of new stalls or any other related equipment or the cost of erecting and dismantling.</i></p>
<p>The above mentioned stalls have been publicised as a high cost to purchase and put up and take down each day.</p>	<p><i>The capital cost of providing the required number of replacement pop up style stalls and associated equipment has estimated by 2 independent sources, as being around £40,000.</i></p> <p><i>The revenue cost of storing, putting pop up style stalls up and taking them down has been estimated at £31,208 per annum.</i></p> <p><i>Any pop up style stalls would be supplied by an external operator who would make the necessary business decision and finance them accordingly. Neither the Council nor NWedr would fund the acquisition of new stalls or any other related equipment or the cost of erecting and dismantling.</i></p>
<p>All we require are new covers and sides and backs. Sides etc could be erected by stall holders themselves. Anchor points at the rear of each stall could be provided. 5 day traders</p>	<p><i>The existing fixed stalls do not provide the flexibility which the Council is seeking.</i></p>

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could clean their own top covers every season.	
Traders clean up area after trading and use the bin bags supplied. Several of the traders also check to see if areas tidy and if not remove.	<i>Noted. The Council is grateful to the traders for their assistance in keeping the market area clean.</i>
There is a problem on the green with pigeons and dog mess.	<i>Noted. The relevant section of the Council has been advised and will seek to take the appropriate action.</i>
Publicity for the market and the activities available in the market areas at certain times of the year eg Christmas Easter and summer.	<i>The Council and NWedr already support, organise, promote and publicise such events.</i>
We would like to know if there is any chance we would be able to have help in setting up and running a face book page for the market.	<i>A promotional and communications plan is being developed for the remainder of 2015 which aims to include utilising social and other electronic media. The traders support and input is welcomed accordingly.</i>
There had been some mention of the council doing a scheme where traders would be able to received card payments. Is there any further information on this?	<i>Traders have previously been advised of the opportunities – through private companies - for customers to make card payments. However, it is for traders themselves to contract directly with such companies if they want customers to be able to pay in this way.</i>
The “traders car park” - concerns in that non traders are using it.	<i>A proposed traffic order for the trader's car park, rear of post office and library is currently being progressed at Worcester County Council. Once complete this order will mean that traffic wardens have the ability to ticket cars without permits. As previously discussed with traders there will be a charge for such permits. In the meantime the Kingfisher Centre has been asked to inform all tenants that staff shouldn't be parking there as it's a private car park.</i>
We would like to find out about the price to advertise on the big screen in the Kingfisher so we could advertise the market	<i>This will be part of the promotional and communications plan referred to below.</i>
Letter 2: Issues	Proposed response
The market has diminished due to lack of support and investment. We need to have investment again.	<i>The Council has limited resources to invest in the market which is one of the reasons why consideration is being given to looking at options for its future operational management. It is considered that an external operator – in whatever form that might take - will be able to provide the appropriate investment and resources that are required to take the market forward to add vibrancy to the town centre.</i>
More publicity and advertising is needed and the web site needs updating on a regular basis	<i>Advertising in the local press has previously taken place and the market was widely</i>

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	<i>promoted in May 2015 as part of the national "Love your Local Market" campaign. Traders also have "Redditch Market" branded bags. A promotional and communications plan is being developed for the remainder of 2015 which aims to include utilising social and other electronic media. This can include the feasibility of advertising on the traffic islands and utilising the big screen at the Kingfisher Centre which would follow up advertising that has previously taken place at the shopping centre. The traders support and input is welcomed accordingly.</i>
Signage	<i>Redditch Borough Council officers are meeting with Worcestershire County Council to progress a signage scheme to include reference to the market in late July. .</i>
New business start up promotion	<i>The web site and previous press advertisements and press releases have promoted the market as location for new start up businesses. Offers have included "rent free" and "discounted rent for stalls" (for a limited period). The promotional plan referred to above will include the further promotion of these offers.</i>
Centre management committee input	<i>The Kingfisher are represented on the Town Centre Partnership who have a very keen interest in the market although have no authority to make any changes. The TCP have asked the market traders to send a representative to meetings in the past but this has never come to fruition however in recent weeks discussions have been had conversation one of the Market Traders who has agreed to attend future meetings.</i>

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3.21 With the soft market testing process now complete, the following options for the future management and delivery of Redditch Outdoor Market are proposed.

Option	Description	Advantages / benefits	Disadvantages / risks
Option 1			
Market remains the same i.e. continues to be operated and managed by NWedr.	5 day per week general market	Council retain control over rents, fees and single trade policy	Market does not maximise its income potential
Council pay NWedr annual sum to operate a general market	NWedr collect stall charges on Council behalf	Continuity in terms of management and staffing	Reduced scope for introducing speciality markets and events
	Council retains stall charge income		On-going obligations for Council in terms of maintenance and repair of stalls

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<p>Option 2</p> <p>Private management and operation of market</p> <p>Council pays Private Operator a management fee during the contract period, to operate market and after an agreed income threshold has been achieved (set at tender stage) a percentage of the additional income be received by the Operator</p> <p>Trading regulations to be similar as existing</p>	<p>3 day per week general market with option to hold additional markets on selected days</p> <p>Private operator stores, transport, erects and takes down stalls</p> <p>Operator collects stall charges on Council behalf</p> <p>Council retain a percentage of stall income</p> <p>NWedr manages contract as part of the Collaboration Agreement</p>	<p>Operator has financial incentive to perform</p> <p>Council retain proportion of income</p> <p>Council potentially benefit from any increase in income arising from increase in stall occupancy and additional markets</p> <p>Maintenance and replacement of stalls transfers to operator</p> <p>Council to input into setting of stall charges</p> <p>Improved vibrancy of the market and town centre</p>	<p>Council paying out a base line management fee to contractor and NWedr</p> <p>There needs to be greater trust between Council and Operator</p> <p>Potential loss of existing traders</p>
<p>Option 3</p> <p>Private management and operation of the Market</p> <p>Operator pays Council an annual fee during the contract period for the right to operate the market.</p> <p>Fee to be increased annually according to Consumer Price Index or "Stepped" increases as agreed at beginning of contract.</p> <p>Trading regulations to be similar as existing</p>	<p>3 day per week general market with option to hold additional markets on selected days</p> <p>Private operator stores, transport, erects and takes down stalls</p> <p>Operator collects and retains stall charges</p> <p>NWedr manages contract as part of the Collaboration Agreement</p>	<p>Maximises the initial contract value</p> <p>Guaranteed income for the Council</p> <p>Maintenance and replacement of stalls transfers to operator</p> <p>Improved diversity and vibrancy of the market and town centre</p> <p>Minimal expenditure for Council</p>	<p>Council potentially does not financially benefit from any increase in trader income following improved trader numbers</p> <p>Lack of control over market policy and fixing of stall charges</p> <p>Potential loss of existing traders</p>

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Preferred option

- 3.22 Taking into account the advice received by NMP, the previous decisions of the Executive Committee and the views of the private operators via the soft market testing exercise, the preferred option is to commence a procurement exercise to externalise the management and operation of Redditch Outdoor Market.
- 3.23 Given the Council's limited resources, it is considered that the management of the market by an external operator under Options 3 above provides the best opportunity to fully maximise the income to the Council, at the same time as making savings in expenditure, whilst also creating a competitive, diverse, sustainable and thriving market that adds to the overall offer and vibrancy of Redditch town centre

Customer / Equalities and Diversity Implications

- 3.24 There are benefits to externalising the market as an external operator will be able to bring a new commercial focus, a fresh approach, added experience and additional markets which should contribute to the regeneration and improvement of the town centre.

4. RISK MANAGEMENT

- 4.1 There is a risk in that the tender prices received may not equate to at least the current net income received. However this is balanced against the potential increase in expenditure that would be required from the Council if it were minded to continue to operate the market through NWedr and potentially purchase the required demountable stalls, store, maintain and replace them, employ staff to put them up and take them down and acquire the associated equipment.
- 4.2 Should the tender price result in a reduction in income, the "trade off" would be the completion of the remaining Recommendations summarised in paragraph 3.20

5. APPENDICES

Appendices 1: Summary of National Market Place report

Appendices 2: Draft Specification

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6. BACKGROUND PAPERS

Information from the National Market Place Report (redacted to remove confidential personal data)

Executive Committee Report April 2015: Redditch Market

Executive Committee Report March 2013: Redditch Market

Two letters on behalf of Market Traders

AUTHOR OF REPORT

Name: Steve Singleton
email: steve.singleton@nwedr.org.uk
Tel.: (01562) 732168

APPENDIX 1

**Summary of National Market Place Market Consultancy Report for
North Worcestershire Economic Development & Regeneration (NWedr)****As at December 2014
and insofar as it relates to Redditch Outdoor Market****1. BACKGROUND**

- 1.1 This Appendix summarises the review of NWedr's outdoor market operations, carried out by consultants National Market Place (NMP) insofar as it relates to Redditch Outdoor Market.

2. METHODOLOGY

- 2.1 In order to carry out the review, the following project methodology was adopted:

2.1.1 Desktop review

This stage of the review used a combination of web-based and documentary research. This included the information and data provided by Council.

2.1.2 Site visits

Visits were made to each market. In addition, the surrounding retail, leisure and commercial areas were studied.

2.1.3 Consultation with Stakeholders

Interviews were conducted with key operational team members at NWedr, discussions with the senior officers in Economic Development, LSD Promotions and some market traders past and present.

2.1.4 Evaluation criteria

Research has identified a number of 'critical success factors', for retail markets. For a market to succeed and be sustainable it is important that it has at its heart as many of the critical success factors as possible. Those success factors are detailed further under paragraph 3 below.

3. SUCCESSFUL & SUSTAINABLE MARKETS – CRITICAL SUCCESS FACTORS**3.1 Sense of place**

Locations are said to have a strong 'sense of place' when they have strong identity and character that is deeply felt by local inhabitants and by many visitors. This sense of place reflects not just the physical nature of the market and location but also the cultural and social diversity of the area.

3.2 Critical mass

This measure looks at the scale of a market in relation to its location, and is not just about size. It is important that the market has critical mass for two reasons. Firstly, placing 25 stalls in a space that can support 125 stalls means that a market will appear small and inconsequential. Equally, a 20 stall market that fills its location is more likely to appear bustling and thriving. In relation to size, the larger the market, the more chance it has to survive economic downturn.

3.3 Good management

Good management is fundamental to any successful market and should not be undervalued. Good decision making, effective communication, business acumen and the ability to deliver a safe, clean and inviting environment are essential. Equally, the effective capture, management and analysis of information and data is an important constituent of successful markets. It is both strategic and operational and recognises the need for, and delivers investment in markets.

3.4 Accessibility & permeability

A market needs to be accessible for all users, so good transport links (public and private) are essential. A market must be welcoming with good entrances, and the interior must be designed to allow good customer flow. This factor also includes location, arguably, the single most important success factor. Markets placed in the wrong location fail.

3.5 Marketing & PR

A market needs to be promoted to raise the awareness both for shoppers and to retain and increase the traders' base. Marketing strategies should recognise the market's brand and emphasise its 'unique selling point' (USP). There should be strong positive links with the local media.

3.6 Safety & security

Customers do not like to frequent places that have high levels of crime and anti-social behaviour. Equally, they will react to perceptions of crime as well as actual crime. It is essential, therefore, that where this is an issue it is tackled robustly and effectively.

3.7 Integration with surrounding retail offer and community

A market offer has to be understood in relation to the surrounding retail offer. Is the market competing with or complementing that retail offer? What differentiates a market offer from the other shops, so that it can attract and retain its own customer base? Equally, a market offer has to be aligned to its demographic base. Understanding retail customer profiles, spend patterns and values and the types of commodity and services that different customer types prefer is essential.

3.8 Partnership working

Sustainable markets need partnership working. This involves not just effective working between managers and traders, but also building and maintaining links with, for example, other council departments, local businesses, town centre managers, local schools, colleges and universities, local primary care trusts, and the local media. They will vary from location to location.

4. REDDITCH MARKET

- 4.1 Located in the pedestrianised Market Place in Redditch town centre, the market currently comprises 35 permanently fixed stalls, a number of additional stalls/pitches and several trailer/catering van pitches.
- 4.2 The market currently operates 5 days a week on Monday, Tuesday, Thursday, Friday and Saturday.
- 4.3 It is operated by NWedr on Redditch Borough Council's behalf who collect the rents and oversee the day to day operation. Income collected is retained by Redditch Borough Council.
- 4.4 In 2013/14 Redditch Borough Council received a net surplus income of just over £25,000 and is on track to receive a similar sum during 2014/15.
- 4.5 The consultants consider that Market Place is the best available location for the market.
- 4.6 Trader numbers are pretty consistent and there does appear to be large trader loyalty to the market. Some traders will occupy more than one stall and most trade on the market for 3 or more days per week.
- 4.7 The most popular days (in order from the most to the least popular) are Friday, Tuesday, Thursday, Saturday and Monday.
- 4.8 Rental income reflects the above, although due to Saturday's higher rental levels Saturday becomes the second best day for income. The market is by no means fully allocated and it is considered that there is plenty of scope to increase income levels. It is unusual to find that the Saturday market is not the dominant day.
- 4.9 Whilst Market Place is potentially a nice setting, the stalls are not particularly appealing and do need regular cleaning. It is already acknowledged that the space taken by the market area is not especially inviting, particularly on quieter market and non trading days. It is understood that plans exist for improving town centre signage, as the current provision is somewhat lacking.
- 4.10 The fixed stalls restrict the opportunity to use the space for other markets/activities/amenities. The market is currently closed on Wednesday

and Sunday and infrequently operates to capacity on any trading day and consequently space is taken by empty stalls.

- 4.11 Operators of continental markets would seek to operate on two (maybe three days) minimum and always at the weekend. In NMP's opinion specialist markets would not work trading alongside the existing market and Alcester Street is not suitable for such markets.
- 4.12 There is however potential for specialist markets such as Farmers, Craft and collectables as these markets are one day markets and could potentially be delivered on the Wednesday or Sunday subject to the availability of operational staff.
- 4.13 In 2013 Redditch Borough Council approved the recommendations of a task and finish group that looked at ways to improve the market and how it would be best served in future years. The section below therefore focuses on Redditch Market and its specific issues and needs.

5. SPECIFIC ISSUES AND NEEDS

- 5.1 One of the main recommendations of the task and finish group was to reduce the market operation from 5 days down to 3 days. This is legally possible as traders hold a daily licence and thus notice can be quickly issued and any market day can be closed.
- 5.2 Monday is an obvious choice as it is by far the worst trading day. The second choice is not so obvious. On income and attendance alone Tuesday and Friday should be retained. There are more trader numbers on Thursday than Saturday although higher rents are received on Saturday. On current year estimates, Thursday would generate £5,435 per annum more rental income than a Saturday.
- 5.3 As a result if Redditch Borough Council felt there was enough opportunity to use Market Place for other themed markets and "non market" events the difference in annual income is not that significant that closing the Saturday market is not out of the question.
- 5.4 However, reducing the trading days does present severe operational and financial implications. The closure of the two lowest income generating days (Monday and Thursday) would see a reduction in rental income of approximately £35,000 per annum at current levels. Whilst it may be that some expenditure can be saved by reducing the days, these two days still make an operational surplus and the £25,000 overall annual net income Redditch Borough Council currently receive (latest figures for 2013/14) would be eradicated.
- 5.5 In addition one of the main intentions in reducing the trading days is to permit alternative use of the space. By implication this requires an operational team to erect and dismantle the stalls. Depending upon which days are closed the market will still be open for 3 days. NWedr is not currently resourced to undertake such a task.

5.6 An estimate of the cost to carry out such an operation would be as follows:

Capital Cost	£
35 Pop up style stalls	35,000
Vehicle and trailer	+ <u>5,000</u>
Total	40,000
Revenue Cost	£
Storage of Stalls	5,000
Erect / Dismantle (3 staff x 7 hrs. per day X 3 times per week x 52)	
Staff £8.00 per hour	+ <u>26,208</u>
Total	31,208

It is accepted that the erect / dismantle cost are an approximation however the additional costs of £31,208 per annum coupled with the loss of income of £35,000 per annum would result in the market making a significant annual deficit.

In Summary the estimated revenue implications are:

	£
Current net annual Income	25,000
Estimated loss of income (5 to 3 days)	- 35,000
Estimated cost of erecting dismantling stalls	- 31,208
<u>Savings and Extra income</u>	
Estimated operational savings (2 Days)	+14,000
Estimated income from Specialist Markets	+ <u>7,500</u>
Forecast Net Deficit	19,708

5.7 The benefits of introducing occasional specialist markets and using the area as an alternative events space would come at considerable cost to Redditch Borough Council.

6. FINDINGS

6.1 Management

There is scope to develop management policies that are more proactive and strategic. Operationally the market works well, but it requires strong directional management if it is to contribute in the delivery of a vibrant town centre.

6.2 Location

The location of the market could not be bettered. It has its own unique character and its potential is untapped.

6.3 Appearance

Redditch market is in need of new stalls; the current provision is not at all attractive and part of any external operator's proposal would include an element for providing new stalls.

6.4 Marketing

The website information is accurate but very unattractive. There is some planned advertisement for 2015. There is no social media presence.

6.5 Financial Performance

Whilst the market currently returns a surplus net income, the consultants advise that it is not maximising its income and an alternative operator would look to ways in which income could be increased.

6.6 Prospects for Growth

The market has the ability to continue to provide a good community market as it has the foundation of a good loyal trader base. It may be fair to say this market has "stood still" for a number of years, however with firm proactive management it has every chance of continuing to succeed.

6.7 Potential Outsourcing of the Markets

Consideration should be given to outsourcing the market. Wyre Forest has successfully outsourced Kidderminster market for nearly ten years. The market has flourished and added value to the towns retail offer. The market days of Thursday and Saturday are the towns two main retail days. The market has undoubtedly supported Kidderminster, provided opportunities for local employment and significantly contributed towards the local economy.

7. Tender Price Options:

In the event of undertaking a procurement exercise for outsourcing the market, the following options for tender price are available.

Option 1

To follow the more traditional route and tender each market individually or as a package and invite applicants to state the annual fee they will pay the local authorities for the right to operate their market across the contract period.

Pro

A traditional route whereby each Authority is clear on the level of revenue to be received each year across the contract period.

Cons

The Operator makes a significant success of the market and the income received by the Authority is not a fair reflection of trade.

No incentive scheme for the operator.

Option 2

To offer each market and/or the collective package to operate the markets over a 5 year period. However operators are invited to tender a price for each trading year during the 5 year period. This may result in a stepped increase across the contract period.

Pros

This usually results in an increase level of income received year on year.

Maximises the contract value.

Cons

The Operator makes a significant success of the market and the income received by the Authority is not a fair reflection of trade.

Option 3

The operator is invited to submit a tender and provide:

1. The management fee required by the operator (paid by the Council) to operate the market.
2. After an agreed income threshold has been achieved (set at the tender stage), the percentage of the additional monies to be received by the operator.

On this contractual basis all rents received are paid daily / weekly into the Local Authorities bank.

The costs to be incurred by the operator would need to be established in the tender document.

Pros

The operator receives a base fee for managing the market and also receives additional monies based on financial performance.

The operator has a clear financial incentive to perform.

Cons

There needs to be a greater trust between Local Authority and preferred operator.

Option 4

The tender document stipulates a number of income thresholds and invites the operator to submit the percentage to be received by the Authority at each income threshold.

Pros

The operator has a clear financial incentive to perform.

Cons

The Local Authority may receive less income if the operator underperforms

There needs to be a greater trust between Local Authority and preferred operator.

8. Management Options

A Department for Communities and Local Government paper on Retail Market Management models (September 2010) sets out eight different types of structures.

These are summarised below:-

Local authority

The majority of markets are still directly provided and managed by local authorities. This model offers the advantage of accountability, linking markets to wider policy strategic goals, and by understanding the 'public good' that markets provide.

Private

Many markets are operated directly by the private sector, either licensed by the local authority under its market rights, with their own charter rights, or in some instances, completely outside the licensing framework.

This model offers the advantage of reduced bureaucracy and costs, an increased focus on the core business, and the opportunity for directly raising investment capital.

Trader

There are a number of traditional and farmers' markets that are directly managed by the traders themselves. This offers the advantage of reduced bureaucracy and costs and an increased sense of ownership by the traders. This model is an example of localism made real.

Partnership

These can range from the local authority retaining the strategic management of its markets but outsourcing the operational management, to a formal medium- to long-term joint venture between the public and private sector. These models are useful where the local authority lacks the in-house capacity and capability to effectively manage the markets, and where external capital investment is required.

A variation on this model is the emergence of public-public joint venture companies whereby local authorities at a sub-regional or city-region level transfer the management of their markets into a separate company. This not only creates economies of scale and increased purchasing efficiency but also allows for much better strategic planning.

This model has the potential to match the development of local enterprise partnerships, which are a new proposal to empower a number of local authorities and businesses to come together to take action to support enterprise and drive economic growth in their communities.

Arms-length

In 2008, Glasgow City Council became the first UK local authority to establish its markets as an arms-length limited liability partnership (LLP). This model offers the advantage of reduced bureaucracy and costs, an increased focus on the core business, and the opportunity for directly raising investment capital.

Social/community enterprise

A social enterprise is defined as 'a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners'. In practice there are various (and quite different) business models that operate successfully under the social enterprise banner.

However, all share a commitment to trading ethically and generating wider social or environmental benefit through their trading activity. This should not necessarily be interpreted as meaning they are small players in a niche market: the Co-operative Society, John Lewis and the mutual building societies are all social enterprises.

However, the social enterprise model is especially suitable where a business is rooted within a specific locality or community, so could be of particular use for smaller markets that do not generate large profits but do want to add value through maximising the local economic, social, and environmental benefits that markets can generate.

Within the context of operating markets, there are three models that warrant particular attention (although in practice the boundaries between them are often fluid):-

- **Co-operative**

the market business is owned and managed by the market traders – primarily for their collective benefit but usually adding value through product range, contribution to the local economy, willingness to work in partnership with other local agencies.

- **Community enterprise**

the market business is owned by, managed by and accountable to the local community – primarily as a vehicle for benefiting the local community. Being a viable, profitable business is important but no more so than what the market means, to and offers, local people. With this local commitment, adding value through economic, social, and environmental outcomes is seen as 'core business' alongside the actual trading.

- **Social Enterprise**

the market business is run 'as a business' with a specific ethical focus which is likely to produce local benefit but is not the primary purpose of the business. For example profits could potentially be invested outside the area of operation – even overseas in developing countries.

Voluntary sector

Some markets, usually community-focused, infrequent and relatively small-scale, are managed by volunteers. This has the advantage of creating a sense of community-ownership of the market as well as reducing operational costs.

Shared management

As per the existing North Worcestershire Economic Development and Regeneration Service

The following table summarises some of the pros and cons of different types of market management model:

Management Model	For	Against
Local authority	<p>accountability</p> <p>linking markets to wider policy/ strategic goals (public good)</p> <p>generates revenue stream for the local authority</p>	<p>can be bureaucratic</p> <p>lack of capital to invest/competing priorities for bids</p> <p>management may not have retail skills</p> <p>time taken to respond to change drivers</p> <p>profile of markets within local authority – no statutory requirement to provide the service</p>
Private	<p>reduced bureaucracy</p> <p>cost efficient</p> <p>focus on core business</p> <p>access to capital investment</p>	<p>potential lack of accountability</p> <p>lack of interest/expertise in wider social/policy issues</p> <p>lack of security/protection for market traders</p>
Trader	<p>reduced bureaucracy</p> <p>cost efficient</p> <p>focus on core business</p> <p>increased sense of 'ownership' by traders</p>	<p>may lack capital for investment</p> <p>potential lack of accountability</p> <p>traders may lack time/wider management skills necessary to effectively run the market and their own businesses</p> <p>lack of interest/expertise in wider social/policy issues</p> <p>potential conflict of interest</p>
Partnership	<p>access to capital investment</p> <p>economies of scale</p>	<p>can be time consuming and expensive to establish</p>

	<p>improved strategic planning (links to local enterprise partnerships)</p> <p>potential for improved management capacity and capability</p>	<p>merging public and private sector styles can be challenging</p>
Arms Length	<p>reduced bureaucracy</p> <p>cost efficient</p> <p>focus on core business</p> <p>access to capital investment</p>	<p>can be time consuming and expensive to establish</p>
Social/Community Enterprise	<p>builds closer links to community</p> <p>wider community benefits</p> <p>reduced bureaucracy</p> <p>cost efficient</p> <p>focus on core business</p> <p>potential access to alternative capital investment</p>	<p>may lack experience and expertise in managing large market portfolios</p> <p>difficulties in attracting commercial capital</p>
Voluntary Sector	<p>cost efficient</p> <p>builds closer links to community</p>	<p>relies on volunteers – frequency of operation may be limited</p> <p>lack of expertise/experience of volunteers</p> <p>increased operational risk</p> <p>lack of capital investment</p>
Shared Management	<p>ability to share best practice</p> <p>ability to share and attract new market traders</p> <p>reduced operating costs</p> <p>ability to improve standards</p> <p>joint marketing and promotion and more integration with tourism promotional activities</p> <p>shared training and support programmes for traders</p>	<p>potential loss of identity of individual markets</p> <p>potential for one partner to be seen to be 'bailing out' the other</p> <p>can be bureaucratic</p> <p>lack of capital to invest/competing priorities for bids</p> <p>management may not have retail skills</p>

	shared back office systems and support for market management	time taken to respond to change drivers profile of markets within local authority – no statutory requirement to provide the service
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9. CONCLUSIONS

- 9.1 It is strongly noted that managing markets is not NWedr core business activity.
- 9.2 If under the current operational regime, the trading days were reduced from 5 to 3 days, the level of income and annual surplus would seriously be reduced with the potential for the market to operate at a loss.
- 9.3 For the markets to maximise their potential the market management team is critical. On the visits to the markets and further research, the markets would benefit from some additional strategic management, given that the market function forms only part of the officers' work responsibilities. It is suggested that this would include developing:-
- A Vision and Strategy
 - Effective performance management
 - Senior "market champions"
 - Proactive, commercially - focused operational management of the service
 - A focus on new business start up opportunities
 - Marketing and promotional strategies
 - An effective web site and use of social media
 - Improved stakeholder and trader engagement
- 9.4 NWedr should be commended for their commitment and drive in that they clearly make the best of the available resource, however for long term development and sustainability of Redditch market consideration should be given to looking at an alternative management model or provider to enable them to meet all the factors highlighted in paragraph 3 above.
- 9.5 The ideal time to do this would be when tenders are invited for the Kidderminster Market operation proposed for during the summer 2015.
- 9.6 NMP would recommend that consideration be given to invite potential operators to tender for each market individually and to express an interest to operate one, two or all 3 markets under NWedr's responsibility.
- 9.7 This methodology would not disqualify groups whom maybe interested in operating their local market and by offering a package it may provide the

opportunity to maximising income using one, two or three operators across the market portfolio.

- 9.8 In addition by inviting individual tenders each authority can receive its own market worth.
- 9.9 NMP would also recommend that an officer be appointed to manage the contract(s). This would not be a full time appointment but the monitoring of the contractor(s) performance is essential in ensuring the markets are operated effectively.

10. RECOMMENDATIONS

- 10.1 Consideration should be given to outsourcing Redditch market within the same package as the Kidderminster contract with interested parties be invited to tender for one or more markets accordingly.
- 10.2 The length of the contract awarded should be 5 years.
- 10.3 Operators to be invited to tender a price for each trading year during the 5 year period. This may result in a stepped increase across the contract period.
- 10.4 That NWedr cease operating Redditch market at the appropriate handover period.
- 10.5 If a decision is made to outsource the markets, joint funding should be made available to resource a client role to manage the contract(s) and to monitor performance.

**CONFIDENTIAL DRAFT SPECIFICATION
FOR "SOFT MARKET TESTING
PURPOSES" ONLY**

**Operation of Markets
In
Redditch Town Centre**

DRAFT

DRAFT SPECIFICATION

In this Specification, except where the context otherwise requires, words and expressions shall have the same meaning as are respectively assigned to them in the Terms of Contract.

1. Background

- 1.1 Redditch Borough Council wishes to enter into a Concessionary Contract with an experienced and capable market operator to develop a proposal for market operation within Redditch town centre and to run markets in accordance with that proposal.
- 1.2 The Concessionary Contract will be for five years, with the potential to extend for a further five years
- 1.3 The Concessionary Contract will be based on a flat rate annual fee (with annual CPI increases at the beginning of each financial year starting from April 2016.

2. Background on Redditch - TO BE ADDED

3. Objectives

- 3.1 The objectives of the are:
 - To increase visitor numbers and spend in Redditch
 - To increase footfall within the Town Centre
 - To promote and grow the market within Redditch
 - To encourage other markets such as Continental markets, Farmers markets and other "speciality" markets to take place in the town centre.
 - To provide residents with an improved and high quality market experience and variety of offer that reflects the requirements of all age groups and social classes within Redditch.
 - To provide opportunities for new enterprises to be created.
 - To provide opportunities for local voluntary organisations and recognised charities to be accommodated on the market as required.

OPTION A

4. Outline requirements (Assuming no fixed stalls)

- 4.1 The Council wishes to appoint an operator who can pro-actively grow the operation of markets in Redditch building from the existing regular market at Market Place. The operator will be expected to apply

innovation and professionalism to the work, and increase customer satisfaction for the Market Place site.

4.2 As a Concessionary Contract, the market operator would be expected to take the majority of the risks in the development and running of markets, and be capable of making the capital investment required.

- **The Concessionaire will be expected to supply market stalls and canopies, provide and maintain the stalls in good repair and condition and ensure they are kept in a clean and attractive style.**
- **The stalls will be of a design and specification to be approved by the Council.**
- **The Concessionaire will need to store erect and dismantle the stalls on each market day**

4.3 In terms of day to day management, the Concessionaire will be expected to:

- Ensure that the market opens for business no later than 09.00 hours on each market day subject to weather conditions or prior agreement with Council, and close the market by 16.00 hours each day
- Ensure the safe movement of vehicles within the market area including trailers
- Be responsible for the cleansing and waste management of market areas and the immediate environment of markets, ensuring that the market area is litter and debris free both throughout the day and following the removal of stalls.
- Ensure that the market stalls are confined to the market area as defined by the plans provided
- Manage the allocation of pitches to traders at all markets
- Collect pitch fees and fees for electricity consumption
- Have a day to day market manager to supervise the operation of markets and communication with stall holders.

4.4 The Concessionaire, in operating markets in Redditch, will be required:

- To be responsible for any costs or taxes including National Non Domestic Rates (Business Rates) arising out of the operation of the markets
- To be fully responsible for compliance with all laws, statutes, common law duties and regulations concerning all aspects of operating and managing the markets

- To be responsible for the cleansing and waste management of market areas when being used
- To ensure that no nuisance or annoyance is caused to members of the public, adjacent businesses and residents, arising from the holding, setting up or dismantling of the markets
- To liaise with Worcestershire County Council as the highway authority for Redditch, who will be responsible for any highway matters arising during the duration of the Concession Contract
- To develop a coherent advertising and marketing campaign for Redditch Market.

5. Services

5.1 Planning Permission is granted to operate an outdoor market within the area shown edged red on the plan at Appendix xxx

5.2 Whilst the current market is generally limited to the area shown hatched black on the plan, the potential exists to extend the current operation within the rest of the defined area shown edged red on the plan. In this regard the existing "fixed stalls" will be removed to allow for the existing area to be "opened up" for a new stalls layout for the Concessionaire to propose and which would be subject to agreement by the Council.

5.3 Redditch Borough Council has a desire to encourage more traders and introduce other market activities to supplement the existing "general" market.

The requirements for running a market under this contract are:

- **A general market on a minimum of three (*or five*) days per week to be agreed with the Council, between 9.00am and 4.00pm.**
- **Additional trading days at Christmas as the Concessionaire sees fit.**
- **Other days and other types of market to be run and the allocation of pitches will be for the Concessionaire to suggest with the agreement of the Council**

5.4 In addition note that:

- The Concessionaire will ensure that all additional markets are of a high quality.
- Agreement may be required from Worcestershire County Council as the Highways Authority.

- The Council has expressed a desire to develop a “food court area” and the proposal will need to show how this might be included within the market operation.
- The Concessionaire will need to demonstrate how new businesses will be encouraged to join and grow within the market environment.
- The Concessionaire will need to allow for recognised charities to take a stall on the market and will need to demonstrate on what basis these will be allowed to occupy stalls.

OPTION B

4. Outline requirements (Including utilising existing stalls – 3 or 5 days per week)

4.1 *As above*

4.2 As a Concessionary Contract, the market operator would be expected to take the majority of the risks in the development and running of markets, and be capable of making the capital investment required.

- ***The Concessionaire will be expected to use the existing permanent market stalls and canopies situated in Market Place and maintain them in good repair and condition and ensure that they are kept in a clean and attractive style.***
- ***In addition and on order to facilitate the operation of additional markets and additional traders, the Concessionaire may be required to consider providing new, demountable market stalls and canopies and associated equipment. If so these will be to a design and specification to be agreed with the Council and the Concessionaire will store erect and dismantle the stalls and maintain them in good repair and condition and ensure that they are kept in a clean and attractive style.***

4.3 *As above*

4.4 *As above*

5. Services

5.1 *As above*

5.2 Whilst the current market is generally limited to the area shown hatched black on the plan, the potential exists to extend the current operation within the rest of the defined area shown edged red on the plan.

5.3 Redditch Borough Council has a desire to encourage more traders and introduce other market activities to supplement the existing "general" market. The requirements for running a market under this contract are:

- **A general market on three (or five) days per week (actual days to be agreed with the Council) between 9.00am and 4.00pm.**
- **Additional trading days at Christmas as the Concessionaire sees fit.**
- **Other days and other types of market to be run and the allocation of pitches will be for the Concessionaire to suggest with the agreement of the Council and subject to the Concessionaire providing, erecting and dismantling appropriate demountable stalls the Concessionary Contract provides the opportunity to extend the market beyond the current established location.**

5.4 As above

6. Management and Stakeholder Engagement

6.1 The Council will set up a Markets Forum to provide an overview and consultation group for the Concessionaire. This Forum will be chaired by a senior representative from the Council, and will include:

- A relevant Council Member
- A relevant Council officer
- Representative(s) from local stakeholders including a regular market trader.

It will meet on a quarterly basis. It will be led by the Council but the Concessionaire will be required to attend.

6.2 The Markets Forum will have no formal role in the management of the contract – which responsibility lies solely with the Council. The contract manager for the Council will provide progress reports to the Markets Forum.

6.3 The Concessionaire will be expected to set up arrangements for on-going engagement and discussion with the local stakeholders, including market traders. This will be led by the Concessionaire, with no specific role for the Council.

7. Performance Measures

7.1 The performance of the Concessionaire will be measured through:

- Compliance with all laws, statutes, common law duties and regulations concerning all aspects of operating and managing the markets
 - The sustainable growth in the number of traders operating in markets in Redditch
 - The increase in the range and quality of the markets in Redditch
 - The effective management, supervision and daily operation of markets
 - Customer Care - the engagement and communication with market traders and other local stakeholders.
- 7.2 The Concessionaire will be required to provide short quarterly reports to the contract manager demonstrating progress against these performance measures.
- 7.3 The Council reserves the right to undertake periodic surveys with both strategic and local stakeholders who will be asked to rate in terms of quality of offer, range of offer and management of markets against the specification.

DRAFT

Attachment x

POTENTIAL PROVIDER'S AWARD PROPOSAL

Please answer the questions below with reference to the Specification and Contract.

ALL questions must be completed.

Please answer all questions in the boxes provided and the boxes provided can be expanded.

Please only provide your responses in this format - standard sales promotional literature is not accepted.

N.B. Each question and the presentation will be scored out of 5 as specified in paragraph 12.3. If you score three or more 1s or 2s you will be disqualified from the Tender process.

Quality Criteria (100% will be converted to 40% of the total Tender Score)	Weighting
<p>1. <u>Method of Operation</u> Please describe in detail how you propose to operate and layout the market, as shown in the Specification, within Redditch Town Centre. Please include how you will manage and supervise the markets, the daily operation of markets and the control of counterfeit or illegal goods, the management of the allocation of pitches and the collection of charges.</p>	30%
<p>2. <u>Market Stalls & Canopies</u> Please describe in detail any Market Stalls & Canopies you will be supplying as part of this Contract. Please include the style, specification and the maintenance of market stalls and canopies.</p> <p><i>OR (If keeping "fixed stalls") Please describe in detail how you will clean, maintain and replace (as required) the existing "fixed" stalls)</i></p>	10%

<p>3. <u>Proposed Programme for Future Markets</u> Please describe in detail your proposed programme for future markets, location and themes.</p>	<p>20%</p> <p>(10% of this will be assessed on the basis of a presentation to the evaluation panel)</p>
<p>4. <u>Advertising, Marketing and Promotions</u> Please describe in detail how you will advertise, market and promote the markets. Please include how you will advertise to the general public, market traders and how you will promote activities.</p>	<p>10%</p>
<p>5. <u>Communication & Customer Care</u> Please describe in detail how you will provide high quality Customer Care and Communication. Please include customer care and communications with Redditch Borough Council, market traders, members of the public and key stakeholders.</p>	<p>10%</p>

<p>6. <u>Corporate and Social Responsibility</u> Please propose how you will add Social Value to this Contract (i.e. how you will improve social, environmental and economical wellbeing of Redditch and its residents). Please include effective protection of the environment, prudent use of natural resources, working with local communities and businesses.</p>	5%
<p>7. <u>Management & Quality Information</u> Please demonstrate how you approach and manage the quality of information in your organisation. Please include the provision of management information, reporting to the Council, self monitoring systems and new industry practices.</p>	5%
<p>8. <u>Services, Utilities, Recycling and Waste Management</u> Please describe in detail how you will manage Services, Utilities, Recycling and Waste. Please include the management of disposal of waste, litter, cleaning and maintenance.</p>	10%
TOTAL	100%

OVERVIEW & SCRUTINY COMMITTEE 7th July 2015

REVIEW OF OPERATION OF LEISURE SERVICES

Relevant Portfolio Holder	Cllr. Pat Witherspoon, Portfolio Holder for Leisure & Tourism
Portfolio Holder Consulted	Yes
Relevant Director	Sue Hanley
Wards Affected	ALL
Key Decision	YES

1. SUMMARY OF PROPOSALS

- 1.1 This report provides Members with the findings of an externally commissioned options appraisal of potential management options for the delivery of leisure and cultural facilities and services.
- 1.2 The report provides the Committee with an overview/ assessment of the options appraisal and identifies additional work which may be required.
- 1.3 Executive Committee will have the opportunity to consider any recommendations of Overview & Scrutiny Committee who have fully considered the options appraisal.
- 1.4 At its meeting on 14th July, the Executive Committee is being asked to recommend to Council:-
1. Consider the report and the options appraisal and decide if any of the identified alternative models for the delivery of leisure and cultural services be pursued;
 2. If an alternative delivery model is decided, for Officers to commission external support and advice to undertake a further comprehensive business case at an estimated cost of £25,000 to £30,000 and for Officers to identify the funding source for this work.

OR

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3. Should Members consider that further work is required prior to a decision on the future delivery of leisure and cultural services, recommend to Council:-

- (a) Release of balances in 2015/16 of £100,000 to offset the income budget that has been allocated in the Medium Term Financial Plan and transfer of £50,000 from the Business Rates levy reserve that is no longer required for 2014/15. These transfers will therefore remove the £150,000 projected savings in 2015/16 (reference 3.9);

and resolve to:

- (b) Complete the transformation work which has commenced to gain a greater user/ customer perspective to influence preferred delivery model(s) (reference 3.26);
- (c) Report back to Executive at the earliest opportunity with a timetable for delivery of any additional work with any associated costs.

2. RECOMMENDATIONS

- 2.1 **The Overview and Scrutiny Committee is asked to note the report and make any recommendations and/or comments for the Executive Committee's consideration, that it feels appropriate.**

3. KEY ISSUES

Background

- 3.1 The Overview & Scrutiny Committee launched a Task Group review of the Abbey Stadium in 2013. Findings of the review were considered by Executive Committee in June 2014 that:-

- a) The Council should explore the options for a leisure trust to manage some or all of its facilities, including the Abbey Stadium; and
- b) The Overview and Scrutiny Committee should be given the opportunity to pre-scrutinise any final business case relating to the future operation of some or all of the Council's leisure facilities, including the Abbey Stadium prior to its submission to the Executive Committee.

Outcomes and recommendations from Overview and Scrutiny will be advised to Executive Committee for their consideration.

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- 3.2 In acknowledgement of the work of the Task Group and exploration of opportunities to make efficiencies / savings, the Strategic Management Team directed the Head of Leisure & Cultural Services to commission an Options Appraisal. This externally commissioned appraisal required an outline of the potential options for the future delivery of leisure and cultural services and this was specified in the brief.

“Consideration of all future management options, against the need to make budgetary savings and the aspiration to achieve service improvements.”

- 3.3 The Sports Consultancy were commissioned to undertake the Options Appraisal in April 2014. Whilst it was initially advised in the proposal letter that this appraisal would be undertaken/completed within four weeks, there were significant delays in the production of a final report, predominantly due to collation and production of the financial and service information required to support the appraisal.
- 3.4 Initial reports were received in (July 2014 and October 2014) with a final draft options appraisal received in January 2015. This report is enclosed for Members consideration at Appendix 1.

The exempt information extracted from the options appraisal is contained with Appendix 2.

- 3.5 Members of the Overview and Scrutiny Committee have undertaken pre-scrutiny work in the following stages:-

- (i) Scrutiny of terms of reference and specification to external consultant's supplementary report and information (09/06/15);
- (ii) Discussion of report findings (options appraisal) from consultants with supplementary information and detail (24/06/15);
- (iii) Review of Executive report, (pre-scrutiny of this report) (07/07/15).

As Overview and Scrutiny will not have their final scrutiny/meeting until after this report is published, any recommendations will be provided to Executive as an addendum report for consideration at the meeting.

Financial Implications

- 3.6 The original cost of the options appraisal was £4,950 and was found from within existing budgets with the costs met equally between Redditch Borough Council and Bromsgrove District Council.

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- 3.7 The financial implications outlined within the options appraisal (Appendix 1) can be summarised as follows:-
- | | | |
|-------|--|---------------------------------|
| (i) | Current costs of service (RBC) | Page 7 |
| (ii) | Set up costs and timetable | Page 25-26 |
| (iii) | VAT and NNDR position | Page 29-30 |
| (iv) | Financial modelling and assumptions for each delivery option | Page 31
(Pages 32-34 exempt) |
- 3.8 Savings of £150,000 for this financial year 2015/16 were built into the Medium Term Financial Plan which was endorsed by Executive and Full Council on the 23rd February 2015.

The Plan stated “potential savings that could be delivered from a review of how Leisure Services are delivered”.

If Members decide not to proceed at this time with an alternative delivery model for the provision of leisure and cultural services, additional savings commensurate with this sum will need to be identified to deliver a balanced budget.

- 3.9 Should Members not proceed then it is proposed that the sum of £150,000 be met from balances which have been increased following the additional savings made in 2014/15 of £100,000 and £50,000 transferred from reserves for Business Rates that have not been required in 2014/15.
- 3.10 An additional £150,000 savings were built into the MTFP for 2016/17 and each year thereafter making an annual saving of £300,000. This budgetary gap will need to be addressed in future years’ budgets and will form part of the discussions later this year.
- 3.11 In pursuance of any further/additional detailed evaluation and external support it is anticipated that there would be a further cost to the Council during 2015/16 which will need to be budgeted for. This cost is anticipated to be in the region of £25-30,000.

Procurement

- 3.12 Procurement requirements were met in relation to the commissioning of the options appraisal (Appendix 1).
- 3.13 Should Executive agree to additional external advice being commissioned, this will be undertaken in full accordance with the Council’s procurement processes.

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- 3.14 Any future commissioning or pursuance of an alternative delivery model will be predicated upon expert legal advice and guidance.

Legal Implications

- 3.15 There will be a range of legal issues if any alternative delivery model is pursued by the Council. This will require specialist legal support in respect of the following areas:-

- Pension advise
- Employment/TUPE
- Property/Leases
- Management
- Contracts
- Detailed VAT advice

Service/Operational Implications

- 3.16 The Leisure & Culture Management Options Appraisal delivered by The Sports Consultancy was commissioned to provide Redditch Borough Council with an independent overview of the available options/opportunities for the potential future management of leisure and cultural services.

This was never envisaged to be a comprehensive business case however the basis on which Executive could consider the available options and “best fit model” on which to make a decision as to how Officers should proceed on behalf of the Council.

- 3.17 The options appraisal enclosed for Members consideration provides:-

- Possible models and governance arrangements.
- Proposals for the mix of services to be included.
- Options and issues.
- Financial benefits.
- Scoring Matrix to summarise the differences between the models considered.

- 3.18 The appraisal considers three potential management options available to the Council:-

- (i) Continued in-house management;
- (ii) External delivery via an external Leisure Operator or existing Trust;
- (iii) Creation of a new Leisure Trust.

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Thereafter it outlines in detail the advantages and disadvantages of each option for the Council to consider.

- 3.19 Other than retaining the status quo (delivering the services in-house), there will be a lead-in time and set up costs involved in moving to an alternative delivery model. The Sports Consultancy set out the following:-

Option 2 – Outsourcing/delivery via an external leisure operator – Potential 12 months to deliver via a competitive tendering process and between £25,000 to £75,000 in legal and advisory fees.

Option 3 – Creation of a new leisure trust – Potential 18 months to deliver and between £150,000 to £200,000 in legal, procurement and advisory fees.

Costs of any future work have not been built into the Medium Term Financial Plan and this will need to be addressed immediately if your Officers are to proceed with further work.

- 3.20 Whilst the options appraisal is provided for Members consideration in full, the outcomes of the options of the evaluation scores for the three models are as follows:-

- | | |
|--|-------|
| • In-house arrangement | 35% |
| • Outsourcing/delivery via an existing trust | 80% |
| • Setting up a new trust | 68.3% |

with an overall recommendation that the “Council pursue the option of outsourcing the management of the portfolio to an existing trust rather than set up a new trust”.

The appraisal outlines that annual average savings of over £780,000 could be secured if the package of leisure services were outsourced to an existing established trust in comparison with an anticipated saving of £430,000 per annum (after set up costs) if the Council were to proceed to create a new Trust. This assumes that all current service delivery is in line with the Medium Term Financial Plan and approved budgets.

- 3.21 Officers consider that Members could make a decision to pursue an alternative delivery model based on the options appraisal, however there a number of limitations which need to be fully considered by Executive:-

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- Whilst three different options/models are stated, there are potentially different outcomes for the service and the process to be followed. These need to be considered in conjunction with the projected financial savings, i.e. opportunity, cost and cost in delivering these.
 - Whilst the financial aspects are outlined for each model, the background and supporting information is significantly weighted on the finance. The detail is more limited as to the potential service improvements and inherent benefits to residents and users.
 - The focus for Redditch Borough Council needs to be that of meeting Strategic Purpose(s) and delivering for the community rather than what is advantageous and of interest to “the market”. Clearly this is a factor however not the primary focus in considering future options.
 - In respect of the scope of the service(s) proposed (or not) for inclusion there is a degree of simplicity in the assumptions which could be detrimental to the Council in delivering integrated services in the future (Parks and Open Spaces). The report is limited on dealing with related services and support services.
 - It is considered that there is not sufficient detail provided in respect of the costs and capacity required to deliver on the options, with specifically an understanding and breakdown of the costs involved. This is of a fairly major concern. There is clearly the potential for a loss of all strategic capacity and resource to the Authority in Leisure and Cultural areas. Whilst this is understood, there does need to be consideration of a retained resource to provide an Authority lead in future arrangements and provision and no costs have been built into the model(s).
 - Whilst the Sports Consultancy have considered the position for both Redditch and Bromsgrove there has been limited dialogue across both Authorities in respect of the options appraisal. Bromsgrove Council have not formally considered the appraisal to the degree that Redditch have and anything that Bromsgrove has to consider is predicated on any decision (or other) that Redditch makes.
 - Senior Managers have, because of the nature of the appraisal, had very limited dialogue with staff affected and no discussion with the Trade Unions or staff representatives.
- 3.22 The options appraisal outlines a range of traditional options in the leisure field however it is considered that these are not the only options available to the Council and Officers consider this will require further exploration and work.

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3.23 Whilst it is regrettable that the time lapse from that originally anticipated has prevented consideration of the various models and opportunities by members, this has also afforded the Senior Management Team with the opportunity to understand new developments in the market and the potential for a wider range of delivery models, including the following not covered by the options appraisal:-

- Commissioned/outsourced parts or elements of the Leisure and Cultural services.
- Local Authority trading company (Teckal)
- Joint venture/Public.
- Joint venture/Private.
- Mutual.

3.24 Whilst the Council have clearly established Strategic Purposes and a clear vision for the delivery of these purposes, there are a range of challenges which need to be considered before embarking on a leisure delivery model.

- To ensure the services continue to contribute and deliver on:-
 - Provide me with good things to see, do and visit;
 - Help me live my life independently;
 - Help me find somewhere to live in my locality;
 - Keep my place safe and looking good;
 - Help me to be financially independent.
 - Help me run a successful business.

The other key drivers for the Council include:-

- Maintenance of high quality services (with rationalisation of facilities provision if required).
- Deliver significant operational cost savings.
- Deliver a financially stable future for leisure, cultural and associated services.
- Increase user and community involvement in the services.
- Find the most appropriate delivery model(s) to ensure the future sustainability and stability of the required services.

3.25 Officers consider it would be in the best interest of the Council and to the communities and users of the services to gain a much greater and detailed understanding of what it is that we should be prioritising and focusing delivery upon.

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Scoping work has already commissioned at the Sports Centres with the team using systems thinking methodology spending time in the business understanding:-

- Incoming demand (What is being asked for; what matters to our customers with the type and frequency of demands).
- Unmet demands (if we are turning customers away, how often and why).
- Usage figures and trends.
- What (if any) barriers exist and what works well and is valued.
- Greater understanding of workflows.

This transformational work cannot be limited to the sports centre and whilst our teams going forward have a key role it is considered that additional support and advice from external experts within the leisure field to provide independent clear and accurate advice would be required by Council if an alternative delivery model is to be pursued.

Should there be the opportunity to realise efficiency savings and or realign services during any intervention, these will be pursued.

- 3.26 Should Members agree that further work is required, the following steps are suggested:-

Will require indicative stages, costs and timescales including the following

- Completion of transformation work;
- Full set of measures/data;
- Review of performance and operating arrangements;
- Commission a further detailed options appraisal (objective assessment of each option against Council purposes);
- Customer and stakeholder engagement; and a
- Costed delivery plan.

- 3.27 Executive Committee will need to be appraised of indicative stages, costs and timescales at the earliest opportunity.

Customer / Equalities and Diversity Implications

- 3.28 At present as there is no formal recommendation to Executive in respect of a proposed operating model, detailed equality impact assessments in respect of staff and customers have not been undertaken. At the point at which a formal recommendation is made on a proposed model then such assessments will be a prerequisite element of a report for consideration.

OVERVIEW & SCRUTINY COMMITTEE 7th July 2015

4. RISK MANAGEMENT

Whilst the advantages and disadvantages of each of the three models are detailed within the options appraisal, the greater risks to the Authority in any outsourced model are set out below.

Outsourcing or Establishment of a New Trust

- Reduced control and day to day influence (more influence and control with a new trust).
- Requirement for funding and resources for the initial procurement and thereafter any re-tendering (set up costs/establishment costs).
- Staff transfer/TUPE/Terms & Conditions.
- Reduced strategic capacity (Council).
- Reduced ability to direct and deliver against strategic purposes including health and well-being.

Additional Risks (New Trust)

- Reliance (short term) on Council's enabling and support services.
- Depending on size, inability to raise capital and no proven track record.

Clearly these risks have to be balanced against the significant financial savings, of which typically the greatest savings are achieved through an alternative model ie a Trust with the potential for even more savings to the Authority by competitive outsourcing.

5. APPENDICES

Appendix 1	Sports Consultancy Initial Options Appraisal
Appendix 2	Exempt information from Options Appraisal

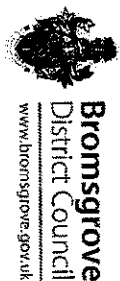
6. BACKGROUND PAPERS

Overview and Scrutiny papers.

AUTHOR(S) OF REPORT

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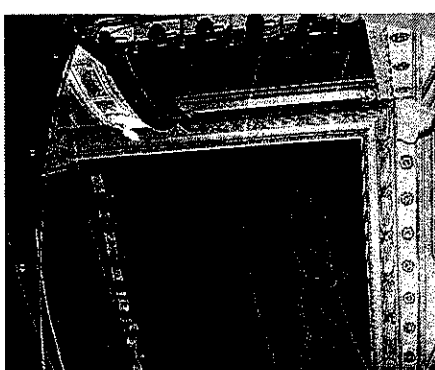
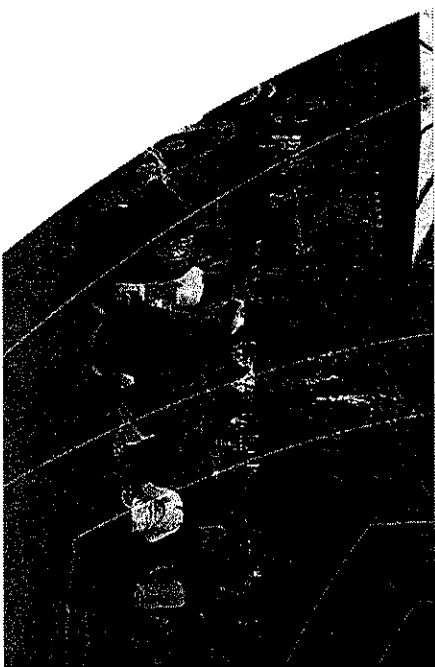
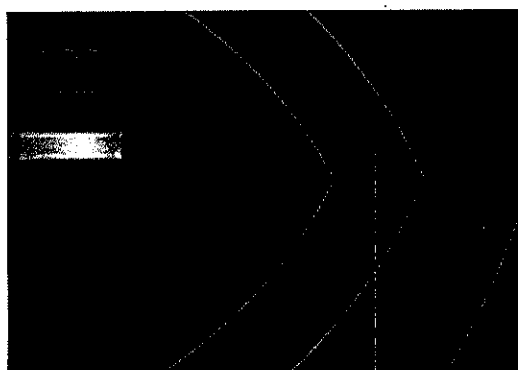
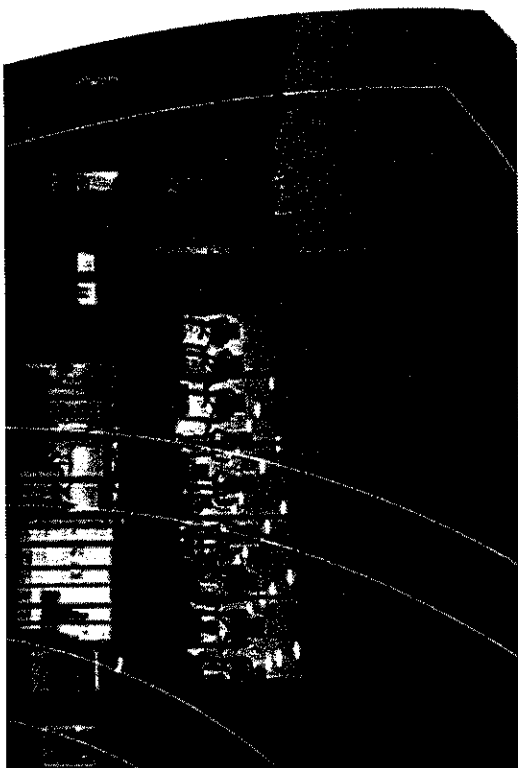
Appendix 1 – Financial Modelling



**Leisure and Culture
Management Options Appraisal
Draft Report**

Commercially Sensitive and Confidential

15 January 2015



The Sports Consultancy

Contents

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Appendix 1: Financial Modelling



1. Introduction

Background and Context

The Sports Consultancy ('TSC') was jointly appointed by Redditch Borough Council ('RBC') and Bromsgrove District Council ('BDC') to undertake an appraisal of the available management options for their leisure and culture facilities and services.

Together with a range of other Council services, RBC's and BDC's leisure and cultural portfolios are now part of a shared service, in a drive to achieve efficiencies and cost savings across the Councils.

The leisure and cultural facilities are all managed in-house, with the exception of (1) BDC's Dolphin leisure centre, which is outsourced under contract to Wychavon Leisure, a specialist leisure trust that also operates facilities on behalf of the councils of Wychavon and Malvern Hills, and (2) BDC's Artrix Theatre which is managed under contract on behalf of the Council by a charitable trust.

Against the background of the imperative make financial savings and to ensure a sustainable future for leisure and cultural provision, RBC and BDC are now exploring the feasibility of alternative management options.

Whilst ensuring a financially sustainable future is a priority, the Councils would like to ensure that the management option can also deliver service improvement and benefits to local residents.

This report summarises the available options to help direct the Councils in terms of:

- the most appropriate scope of facilities and services to include
- likely financial savings available to the Councils over a 10-year period, taking into account operational improvements and any support service rationalisation, as well as VAT and NNDR savings
- potential for service improvement
- management and staffing
- legal framework and governance
- track record of the contractor market and strength of covenants
- council control and influence
- contractual documentation governing the agreement between the Council and contractor (e.g. legal agreement, service specification, asset management responsibilities matrix, performance management system)
- an implementation and cost plan
- likely appetite from potential service providers.



2. Overview of service

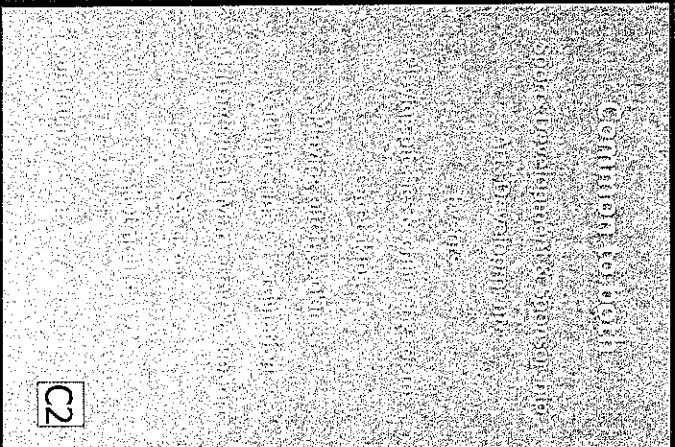
Scope of facilities – current portfolio

The Councils' respective portfolios encompass a mix of facilities and services across, indoor and outdoor, leisure and cultural, which are listed below. The combined cost of operating the facilities (including the management fee paid to Wychavon Leisure for the Dolphin Centre) is budgeted to be £5.3m in 2014/15, including support services.



Redditch specific

- Abbey Stadium Leisure Centre
- Arrow Vale Sports Centre (dual use)
- Kingsley Sports Centre (dual use)
- Palace Theatre
- Forge Mill Needle Museum & Abbey Ruins
- Pitchebrook Golf Course
- 5 Community Centres / Meeting Rooms
- 3 Parks (Arrow Valley, Overdale, Morton Stanley) & Open Spaces
- 3 Business Centres
- Learning on-line



In July 2014 BDC approved plans for a new leisure centre to be built to replace the Dolphin. The existing contract with Wychavon Leisure will effectively terminate when the current centre closes. Ideally, the contract for the new centre should be tendered as part a wider BDC/RBC portfolio. The management contract for the Artrix Theatre, however, does not expire until 2026 and is likely, therefore, to continue to be managed under a separate arrangement.



Bromsgrove specific

- Dolphin Leisure Centre (outsourced)
- Artrix Theatre (outsourced)
- Sanders Park and Open Spaces
- Council House HQ (and cleaning)
- Public toilets



Slide 6

C2 I have moved this to common to both. Redditch has 5 community centres and Bromsgrove has 2 (Spadesbourne and Amplett Hall)?
Chris, 14/01/2015

Cost of service

The budgeted net cost for 2014/15 of the service components for each portfolio is set out in the table below, listed in order of the net cost of the service (highest first):

2014/15 Budgets

Redditch	Net Cost	% total
Parks, Open Spaces & Allotments	£1,042,696	37%
Management, marketing & support services	£626,439	23%
Palace Theatre	£211,280	8%
Forge Mill Needle Museum & Abbey Ruins	£172,664	6%
Community Centres	£155,025	6%
Sports Development & Sponsorship	£123,315	4%
Kingsley Sports Centre	£97,141	3%
Abbey Stadium	£87,607	3%
Playing pitches & changing rooms	£85,577	3%
Events	£57,410	2%
Arts Development	£47,270	2%
Learning on line	£34,426	1%
Arrow Vale Sports Centre	£29,720	1%
Pitcheroak Golf Course	£15,863	1%
Allotments	(£3,966)	
Total	£2,782,467	



Slide 7

C6 Excludes the 8 community centres not part of John's portfolio
Chris, 18/12/2014

Scope of service – looking to the future

When assessing the most appropriate scope of a portfolio to outsource to a third party, we would recommend the facility and service portfolio represents a **coherent package** in order to confer opportunities for operational efficiencies and strategic benefits. A coherent package will be more attractive to the market, generate more interest, and ultimately put the Councils in a **better position to achieve best value from the contract**.

1. The **Leisure Centres** will form the core part of a portfolio of facilities outsourced to the market. Not only will these will generate the most interest from the market, they will provide the greatest opportunity for the Councils to achieve savings through operational efficiencies and driving additional income through higher usage numbers. BDC's Dolphin Centre is currently outsourced to Wychavon Leisure Trust but this will terminate upon the delivery of the planned replacement facility in [2017]. The prospect of a brand new leisure centre within the portfolio will maximise market interest in the operator market.
2. Bromsgrove's **Artrix Centre** is operated under contract by a specialist trust which is not due to expire until 2026. Whilst it would be reasonable to assume that the Artrix Theatre Trust could operate Redditch's **Palace Theatre** (currently operated in house) – and would recommend discussions are pursued to assess the feasibility of such – in the meantime, we would suggest that it forms part of the package to outsource as part of the wider portfolio. We should point out that whilst leisure operators do operate theatres on behalf of Councils, their experience here is still rather limited and they are likely to be keen to operate the theatre only if it is included with the other facilities, i.e. we cannot foresee it attracting much interest if let as a standalone contract, other than from specialist theatre operators.
3. RBC's **Pitcheoak Golf Course** generates income of less than £100,000 per annum. Whilst neither a review of the facility nor of competing golf courses has been undertaken, in the absence of any evidence to the contrary, we would expect this relatively low level of income to be enhanced by a specialist operator. Leisure operators such as SIV and MyTime are active in the public golf course operator market, and generally there is appetite to manage similar facilities. Further soft market test may well indicate that the Council is likely to achieve best value through separating the golf course operation from the rest of outsourced portfolio, but for the time being, we would recommend it forms part of the wider package.
4. RBC has a number of **Community Centres** across the borough, five of which are operated by the leisure service. BDC's community centre portfolio comprises Spadesbourne and Amphlett Hall. Together, these seven facilities generate around £120,000 of annual revenue in bookings. These potentially could fit well with the leisure and culture portfolio, providing venues for delivering activity and community programmes.



Scope of service – looking to the future

5. **RBC's Forge Mill Museum** is a venue of regional significance, showcasing the area's heritage of needle and fishing tackle industries. On the same site are the ruins of Bordesley Abbey and the visitor centre. Whilst the current level of income generated by the facility is modest, at less than £50,000 per annum, the physical infrastructure seems to be sound and it is reasonable to assume that additional income could be generated if it was operated on a more commercial basis outside of the Council, perhaps driving additional revenue through venue hire.
6. **RBC operates a number of Business Centres** in the borough which provide rentable space for local business and organisations to use for meetings, events, and office space. Again, if it could be demonstrated that these facilities allow a third party operator (which is likely to be a trust) to demonstrate a commitment to some kind of charitable objective along the lines of supporting local business and promoting employment, there could well be some tax advantages of including these in the wider portfolio for outsourcing. The centres currently generate almost £400,000 income per year.
7. **RBC's and BDC's Sports Development and Sponsorship** services together cost £560,000 per year to operate. Whilst as part of this study we have not explored precisely what the service delivers and cannot comment on whether this represents value for money, this is nevertheless a significant cost and outsourcing it together with the wider leisure portfolio may bring some efficiencies and cost savings. Also, keeping the sports development service as part of the same package as the physical leisure infrastructure is likely to make good strategic sense.
8. Likewise, the Councils' respective **Arts Development** services require significant resources to operate, costing a combined £400,000 per year. Again, we have not undertaken a review of the activities of the arts development service and are therefore not in a position to opine on whether the outcomes it delivers represent good value for money for the Council. It does seem sensible to keep the theatre operations and the arts development services together as a coherent package and so we would recommend that these form part of the wider portfolio for outsourcing.



Scope of service – looking to the future

9. RBC's net cost of operation is £2.8m. At £1.0m, **Parks and Open Spaces** represent the highest cost within the portfolio, accounting for 37% of the total budget. This service includes all grass cutting, hedge trimming, verge maintenance, allotments, and planting, all of which is undertaken by RBC's In-house Landscape and Grounds Maintenance team. As there is no material income generated by parks and open spaces it is likely that moving these to a trust will prove to be more expensive to operate than currently due to the treatment of VAT. This issue is covered in more detail later in this report, but broadly speaking, a Trust will be able to benefit from VAT savings on income, whereas a Council-operated facility's prices will be subject to VAT. Conversely, a Trust needs to pay VAT on its input costs, whereas a Council will be able to recover the VAT paid. So, as a rule of thumb, where income is low in proportion to costs, it will be more expensive for a Trust to operate than a Council. Similarly, where income is high as a proportion of costs, a Trust will be able to operate that service at a lower cost than a Council. There are likely to be few savings achievable through the trust benefiting from National Non Domestic Rate (NNDR) relief as there is little or no NNDR payable on these facilities currently. Moreover, there are very few leisure operators who have a demonstrable track record in delivering grounds maintenance services. We have been asked whether a trust would be in a better position to driver better commercial terms through contract negotiation a grounds maintenance contractor; this may well be the case, but if the trust is the principal client, the VAT it will pay for the service is likely to negate any gains made in a lower management fee. For these reasons, we would recommend exploring the option of the parks and open spaces service being separately outsourced to a specialist private operator, with the client relationship retained by the Councils.
10. The Councils have a number of **playing pitches and changing rooms** within their boundaries which generate modest levels of annual income. The grounds maintenance contractor is likely to be best placed to undertake the maintenance of the playing pitches as a combined package with the open space portfolio. We would question what a leisure/culture contractor could bring in terms of additional benefits to the Councils and would therefore suggest that they can achieve better value if these are packaged together with the open space and parks contract.
11. Similarly with **allotments**, it is difficult to see what additional benefits could be gained by transferring their management from the Council to a trust. Any gardening programmes a trust could run for particular target groups could still be delivered without the need to manage the allotments directly.



Scope of service – looking to the future

12. Within the parks there are several **cafés** which are managed under contract by private operators. Knowing the leisure operators as we do, and given the typically seasonal nature of the café operations, we would suggest that these would not form a key part of their operation and are likely to follow a similar strategy to the Council in seeking a specialist catering company to manage them on their behalf, rather than deliver the service directly. For this reason, the Councils are likely to achieve better value for money if they retain their current arrangement and manage the relationship with the café operators directly.
13. The **catering service** within the leisure centres, however, will be considered by leisure centre operators as a core part of the portfolio and they would therefore typically prefer to manage it directly themselves.
14. We note that the scope of the Leisure and Culture department encompasses responsibility for management of the **Council House** for Bromsgrove (the local authority's head office) as well as the district's **public toilets**. There appears to be no obvious fit between these facilities and the leisure and cultural portfolio and we would question whether there is any operational or strategic rationale for these to remain within the package in the future.



Scope of service – recommendations for the future

With the benefit of the feedback from the leisure operators, and our experience in procuring similar facilities, we would recommend that the package of facilities and services to be considered for outsourcing – whether to a new trust or an existing operator – contains the following to ensure the Councils are in the best position to secure best value and service improvements:

Redditch specific

- Abbey Stadium Leisure Centre
- Arrow Vale Sports Centre (dual use)
- Kingsley Sports Centre (dual use)
- Palace Theatre
- Forge Mill Needle Museum & Abbey Ruins
- Pitcheroak Golf Course
- 3 Business Centres

Common facilities

- Sports Development Specialist Staff
- App Development
- Events
- Catering, Wine, Beer & Tipples complimentary service

Bromsgrove specific

- Dolphin Leisure Centre (new)
- Museum & TIC

Those facilities that currently form part of the leisure and culture portfolio but should be considered for exclusion for an outsourced package are the parks and open spaces, playing pitches (which we would recommend be managed by the grounds maintenance specialist and packages with the bookings system and maintenance of the pavilions), allotments, public toilets, BDC's Council House, learning on line, and volunteering coordination.

3. Potential management options

Potential management options

The potential management options available to the Council are listed below:

1. Continued in-house management
2. External Delivery via outsourcing
 - a) Leisure Operator / Existing Trust (10 to 15 year contract)
 - b) Creation of New Leisure Trust (typically 15+ year contract)

This section provides a general overview of each option, highlighting their advantages and disadvantages.



In house management

- Under the option of continued in-house management, the Councils continue to be responsible for the operation of the facilities and services. We recognise that BDC already outsourced two facilities under contract – the Dolphin Leisure Centre and the Artrix Theatre- but the majority of the combined portfolio under review has remained in-house.
- Under this scenario, the Councils employ all staff and retain all income, expenditure, and buildings maintenance risks.
- There will be continued reliance on the central support functions within the Council, such as legal, accounting, and human resources.
- The Councils **benefit** through retention of total strategic and operational control of the services, and retain relationships with other local authority services. Whilst continuing on this basis will save on avoided set-up and procurement costs, there are some **key disadvantages** that are relevant in assessing the viability of this option, as set out in the following table.



In house management

Advantages and disadvantages of in-house management versus outsourcing to a specialist operator.

Advantages

Councils retain total strategic and operational control of the services

Councils retain relationships with other local authority services.

Avoids set-up and procurement costs

Disadvantages

No revenue savings from NNDR relief or VAT (achievable under the option of outsourcing to a Trust)

No risk transfer relating to management or maintenance

No contracted long term operating savings achievable

Limited opportunity to achieve wider council savings

No additional specialist management expertise and ideas brought in

Limited career opportunities within leisure and limited development of leisure staff

Retention of slower local-authority decision making processes , impeding development opportunities and reaction to market forces

No entrepreneurial incentives to improve the service

Councils have other strategic priorities competing for funding

The future of the service is not enshrined in a legally binding contract which could threaten its longer term sustainability.



Outsourcing to existing trust

- If the Councils were to outsource the management of the portfolio to the market, there are likely to be two different types of organisations bidding, both of which will benefit from the tax advantages of a trust set-up:
 1. Existing charitable trusts,
 2. Private sector organisations with their own trust structures (hybrid trusts)
- The distinction between these two types of trusts has become rather blurred and therefore their differences are not immediately obvious. Moreover, the benefits each can bring to the Councils, as the client, are indistinguishable. Under both options a trust would contract with the Councils under the following indicative terms:
 1. over a fixed term, typically between 7-15 years
 2. taking on the risks and responsibilities of income and costs
 3. offering an annual contracted management fee (which will either be a payment from the trust to the Councils, or from the Councils to the trust, depending on the net cost of operating the portfolio)
 4. delivering the services under an output specification and performance management system, ensuring the Councils retain some level of control over the scope and quality of service delivery. The Councils will need certainty over the future scope of their service and this is only possible with a robust contract document.
 5. the Council would lease the facilities to the operator
 6. sharing the risks and responsibilities of facility maintenance, with the Councils typically retaining the responsibility for the structure of the buildings
 7. employment of the staff and their terms and conditions would be transferred from the Councils to the operator under TUPE.
- Crucially, an external operator will not be reliant on the Councils' support services as it will have its own IT, marketing, HR, accounting and legal functions to support the outsourced service. This will allow the Councils the opportunity to assess the viability of any additional head office savings, which could be substantial (around £800,000 in this case).



Outsourcing to existing trust

- Where the private sector hybrid and charitable trust models differ is around the ability of the former to achieve the same degree of NNDR and VAT benefits.
 1. A charitable trust will be able to access **greater** NNDR relief (this is covered in more detail in the financial modelling section later in this report
 2. A charitable trust will be able to achieve savings through VAT relief which are not available to hybrid trusts at all.
- The split between in-house and external leisure facility management is broadly 50:50 in the UK. The proportion of facilities externalised is expected to continue to grow for the foreseeable future due to:
 - Competing budgetary pressures of local authorities
 - Growing realisation that **it secures the long term future** of its leisure service (under contract) and is more financially sustainable than in-house management
 - Allows Council to make savings in support services as operators provide their own established and specialist back office function.

Outsourcing to existing trust

Whilst there are some – primarily strategic and control-related - advantages of in-house operation, there is good reason for the growing numbers of Councils turning to outsourcing of their services. The advantages and disadvantages of outsourcing are set out in the table below:

Advantages	Disadvantages
<p>Contracted cost savings are available to the Council through a lower management fee, achievable by operators through VAT and NNDR savings, as well as increased income and cost efficiencies.</p> <p>Council transfers income and cost risks over to the operator. If the operator fails to achieve these, the Council's savings are not in jeopardy.</p> <p>Brings significant specialist management expertise to the service</p> <p>Council is more likely to invest in new facilities if there is the guarantee of annual operational cost savings. Also, the operator can bring additional capital finance to fund revenue generating schemes.</p> <p>The quality and performance of the service is benchmarked against similar facilities across an operator's portfolio. Poor performance is identified more readily and addressed swiftly and appropriately.</p> <p>The operator has a single focus – operation of leisure and culture facilities and services – and is not distracted by</p> <p>Enshrines the service in a contract and protects the portfolio ultimately for the benefit of the community. All the Council's service requirements are stipulated in the contract, allowing protection of certain prices and user groups.</p> <p>Faster decision making – avoids the typically time-consuming processes of the public sector.</p> <p>Allows further savings to be generated by reducing the Council support services function (marketing, HR, finance, legal etc) – as these will no longer be supporting the outsourced service</p>	<p>Reduced control and day to day influence from the Council</p> <p>Support service costs are spread over fewer services</p> <p>Requires funding and resources for the initial procurement process (and for any retendering)</p> <p>Weakens link with other local authority providers (although as increasing numbers of local authorities are outsourcing, this is becoming less relevant).</p>



Setting up a new trust

- The Councils could instead choose to set up their own trust to operate the portfolio. There are a number of different social enterprise models available that the Councils could elect to set up, all of which have very subtle differences. These models all fall under the banner of **Non Profit Distributing Organisations**:
 1. Industrial & Provident Society
 2. Company Limited by Guarantee
 3. Unincorporated Charitable NPDO
 4. Limited Liability Partnership
 5. Charitable Incorporated Organisation
 6. Community Interest Company
- The **Industrial & Provident Society**, and the **Company Limited by Guarantee** models are the most appropriate for the Councils to consider. Both offer the advantage of achieving the VAT and NNDR benefits.
- For a range of reasons (the key ones listed below), the other four models are unlikely to be appropriate for the Councils to consider:
 - ⊗ **Unincorporated NPDO** - *Trustees will be personally liable for the performance of the trust*
 - ⊗ **Limited Liability Partnership** - *Does not benefit from VAT or NNDR savings*
 - ⊗ **Charitable Incorporated Organisation** - *No public record of liabilities and so CIO's will struggle to borrow money. Also, the model is new and untested for leisure and culture services.*
 - ⊗ **Community Interest Company** - *No VAT benefits and NNDR relief is discretionary only. Also, the assets cannot be transferred back to the Council in the event a CIC fails.*



Setting up a new trust

- So, whether the Councils decide to set up an IPS or a CLG, the charitable trust model it uses is likely to have the following advantages and disadvantages compared to an existing established trust:

Advantages

More opportunity for community and staff involvement in the management of the business

Management team are more likely to understand the existing business from the outset, the market and demographics of the user catchment

Typically closer working relationship with the Council

Focus on a single contract by the management team will avoid distractions from other clients

Closer relationship with local groups, organisations and stakeholders

Offers a political "compromise" or half-way house between in-house and outsourcing

More responsive to local needs and closer to local strategic partners

Disadvantages

Greater reliance (at least in the short to medium term) on Council's support services

Reliance on a single contract, which is likely to persist in the longer term as it struggles to offer competitive commercial proposals for other contracts compared to the established operators.

If the Trust fails it is likely that the Councils will have to step in to support it financially (in the absence of contracts with other local authorities to support the business). The Councils can therefore effectively be held to ransom by the Trust

Weak financial covenant compared to the larger established trusts and it may struggle to raise capital for investment

Effective transfer of risk from the Councils will be limited due to the weakness of a new trust's financial and operating covenant

No track record of operating the service without the support of the Council

A top heavy head office in relation to the bigger, more established trusts. Purchasing power will be weaker and they struggle to offer competitive management fees. They tend to be significantly more expensive than larger trusts.

No new management expertise or new ideas as management team typically comes from the Council officers

Fewer opportunities for staff promotion and career development

Process to set up a new NPDO can be lengthy, complex and expensive, and is more likely to be in this instance due to the involvement of two Councils rather than just one



Setting up a new trust

- In common with any NPDO, the new trust will not be able to distribute any profits or surpluses to shareholders or a third party; instead all surpluses must be reinvested in the direct delivery of the trust's charitable objectives.
- As set out above, the Council's options are realistically limited to a choice of two NPDOs: Industrial and Provident Society (IPS) and a Company Limited by Guarantee (CLG), the characteristics of which are set out below:

Industrial and Provident Societies (IPS)

1. Limited liability, registered under the IPS Act 1965
2. Needs to be a bona-fide cooperative society or for the benefit of the community
3. Regulated by the Financial Conduct Authority
4. If formed for charitable purposes, it will be exempt and enjoy the benefits of other charities despite not needing to register with the Charity Commission (including VAT and NINDR benefits)
5. Each member of the IPS has one vote. This dilutes the control of a local authority

Company Limited by Guarantee (CLG)

1. Legal entity incorporated under the Companies Act 1985
2. It does not issue shares, instead requiring members of the company to contribute a (typically nominal) sum
3. Enjoys VAT and NINDR benefits
4. Regulated by the Charity Commission and subject to the requirements set out in the Companies Act (which allows it to change its own rules to meet the needs of the business)
5. Directors are the Trustees and are responsible for compliance with Charity Commission and Companies Act

A new trust will typically have 10-12 board members and the influence of the Council is limited to 2 members. In this case, therefore, BDC and RBC would be limited to one board member each. The rest of the board is typically made up from local representatives with their role being to ensure the trust is operating in line with its charitable objectives.



Council control and contract documentation

- Fundamentally, the Council will be able to retain as much control as it needs whether its service is operated by an existing trust or a new one, whilst ensuring that the contract attracts sufficient interest from the market and delivers the Council's target savings. The typical controls retained include:
 - Availability of facilities
 - Scope of services
 - Core prices (for certain activities such as swimming)
 - Protected users / target users
 - Contracted asset management obligations

Key contract documentation

- **Legal Agreement** between the Council and the operator sets out the terms and conditions of the contract, including default and termination provisions
- The **Service Specification** sets out the nature and scope of service to be delivered.
- The responsibilities for asset management (maintain, repair and replace) are agreed at the outset through an **Asset Management Responsibilities Matrix**. The Council typically takes responsibility for the structure of the facilities, latent defects, and any significant items of plant and machinery.
- The standard of service is governed by a **Performance Management System** which sets monthly and annual performance standards that the operator should achieve. If these are not achieved, penalty points are incurred. If penalty points breach an agreed threshold for set periods, the operator will be in default of the agreement and Council can terminate the agreement.



Procurement

- Whether the Councils ultimately choose to pursue the option of setting up their own trust or contracting with an existing operator, it will be important to demonstrate that the recommended option provides best value, and this is only achievable through selecting your operator through a competitive procurement process.
- However, most Councils who have set up their own trusts seem to have chosen to ignore the fairness, openness and transparency that a well-managed competitive procurement process provides. The difficulty here is the obvious conflict of interest a council has in evaluating the responses of third parties when it has already chosen to pursue the option of setting up its own trust (and have committed to the considerable associated set-up costs).
- As part of the detailed management options appraisal, we would suggest that procurement options be considered in consultation with your legal advisors.

Set up costs and timetable

- The lead-in time and set up for each option will depend on the necessary requirements the Councils will need to put in place.
- Procuring a management contract via a competitive tendering process to an existing operator typically takes 12 months and will cost the Councils around £75,000 in advisory fees. This will require the drafting and agreement of a contract, property leases and a specification, and will require the Councils to follow a competitive tendering process to ensure it achieves best value.
- Setting a new trust could take around 18 months and could cost up to £200,000 in legal, procurement and accounting advisory fees. This could be significantly reduced depending on the complexity of negotiations; however, given that there will be two Councils involved in the set up, it is likely that this will bring with it complexities that may introduce additional costs and require more time to deal with. The longer lead-in time is typically necessary for the creation of a new legal entity with the Charity Commission as well as the recruitment of senior management staff and trustees, drafting of company documents, logos, procuring of business support systems, and setting up a head office.
- The fees set out here really are just guidelines and whether the Councils decide to use their own legal services to procure the contract or whether it uses external advisors at all. Where the Councils use their own legal resource, the costs could reduce by around £50,000 in setting up their own trust.



Legal implications

TUPE and Pensions

- Under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (referred to as TUPE), the rights of existing employees transferred from one employer to another are protected, allowing them to retain the same terms and conditions with continuity of employment.
 - New employers are therefore obliged to provide a broadly comparable pension scheme for existing employees. This is either through their own pension scheme, or via the existing Local Government Pension Scheme, which the new employer can join as an admitted body.
 - The Council can specify whether the pension scheme is to be open or closed to future new employees.
- Property leases**
- Typically, the Council's assets will be transferred from the Council to the new operator under a lease agreement, granting them exclusive use of the facility to carry out their contracted services. The lease will co-terminate with the management contract.



4. Financial implications

Current cost of the service

- For the purposes of showing the potential financial implications of outsourcing the portfolio, we have used 2013/14 budget data as a base. This is due to the relative completeness of this data set, compared to 2013/14 actual performance and the 2014/15 budget.
- The 2014/15 budgeted cost of the package of facilities and services we recommend be outsourced together is set out below. The detail behind this is attached as Appendix 1.

Redditch	Bromsgrove	Total
2013/14 Budget total	2013/14 Budget total	2013/14 Budget total
£1,805,589	£1,210,644	£3,016,233
VATable income (Council operation)	VATable income (Council operation)	VATable income (Council operation)
(£2,015,911)	(£72,079)	(£2,087,990)
78%	45%	76%
VAT exempt income	VAT exempt income	VAT exempt income
(£564,265)	(£89,288)	(£653,553)
22%	55%	24%
Income	Income	Income
(£2,580,176)	(£161,367)	(£2,741,543)
Expenditure		
Service recharges	Service recharges	Service recharges
£47,558	£0	£47,558
Staffing Costs	Staffing Costs	Staffing Costs
£2,176,613	£193,345	£2,369,958
Utilities	Utilities	Utilities
£239,045	£0	£239,045
Water	Water	Water
£91,349	£0	£91,349
NNDR	NNDR	NNDR
£235,422	£29,193	£264,615
Premises	Premises	Premises
£405,217	£20,000	£425,217
Transport	Transport	Transport
£7,263	£0	£7,263
Supplies & services	Supplies & services	Supplies & services
£746,698	£328,181	£1,074,879
Dolphin Management Fee	Dolphin Management Fee	Dolphin Management Fee
£0	£370,650	£370,650
Insurances & Licences	Insurances & Licences	Insurances & Licences
£42,165	£4,405	£46,570
Cost of sales	Cost of sales	Cost of sales
£10,751	£0	£10,751
Support services	Support services	Support services
£383,684	£426,238	£809,922
£1,805,589	£1,210,644	£3,016,233

Trust option – VAT and NNDR

VAT benefits

- A Trust will be able to benefit from VAT savings on income, whereas a Council-operated facility's prices will be subject to VAT. So, for example, if the current price of a health and fitness membership at the Council-operated Abbey Stadium is £26 including VAT, the cost is made up of £21.66 + £4.33 (20% VAT). If the delivery of the service is transferred to a trust, it allows the total price of £26 to remain the same but all of it can be taken as income as it becomes VAT exempt. This additional income benefit converts to a better bottom line which the Council benefits from through a better management fee.
- Conversely, as a general rule a Council can claim back VAT on the costs of providing its services relative to the VAT it charges for its services. Our calculations indicate that the Councils currently charge VAT on 76% on its income. It can therefore claim back 24% (100% minus 76%) of the VAT paid in delivering those services. We have calculated that a Trust will charge VAT on 88% of its operational income and will therefore only be able to claim back 12% (100%-88%) of the VAT it pays in delivering its services. However, this proportion increases if the Trust charges a VAT-able management fee to the Council. Assuming this is around £2m, the exempt income percentage reducing to 46%, allowing the trust to claim back 54% (100%-46%) of the VAT on its input costs.
- Overlaying these assumptions to the financial modelling indicates a VAT benefit of £103,889 under a trust scenario, as set out in the table below.
- As this is such a complex and specialist area, we would recommend as part of the next stage that a VAT specialist undertakes a full review on the basis of the latest actual trading figures.
- Clearly, if a trust cannot claim back VAT on its capital expenditure to the same degree as a Council, it can have significant implications for the affordability of capital schemes. For this reason, it is usually sensible for Councils to fund any significant capital expenditure and benefit through the resulting improved management fee

VAT Calculations – Trust Scenario

Taxable income	(£366,442)
Exempt income	(£2,730,060)
Total income	(£3,096,502)
Exempt percentage	88%

Irrecoverable VAT	£413,233
VAT benefit on Income	(£354,958)
Net VAT (benefit) / cost	£58,275

Assuming VAT-able management fee charged to Council

VATable Management Fee	(£2,000,000)
Taxable income	(£366,442)
Exempt income	(£2,730,060)
Total income	(£5,096,502)
Exempt percentage	46.4%

Irrecoverable VAT	£251,070
VAT benefit on income	(£354,958)
Net VAT (benefit) / cost	(£103,889)



Trust option – VAT and NNDR

VAT and management fee

- It is important to point out that only a contracted management fee attracts VAT. A grant payment is not subject to VAT and therefore will not confer the major advantage of enabling the grant recipient to increase the amount of VATable outputs and thereby increase its VAT recovery on inputs. In this case, the advantage of a contracted VAT-able management fee is around £200,000.
- Combined with the clear disadvantage to a trust of the lack of visibility of a grant – it is by definition not a clear contracted payment – we see no rationale for structuring the payment to the trust as such.

National Non Domestic Rates (NNDR)

- NNDR (or business rates) is a tax on non-domestic properties such as leisure centres, community centres, theatres, cafes and shops.
- Under the Local Government Act (1988) certain organisations are entitled to mandatory or discretionary relief from NNDR payment. Setting the level of discretionary relief – and the rules under which it can be claimed - is at the discretion of local authorities considered on a case by case basis.
- If a building is used wholly for charitable purposes, the building will receive 80% mandatory relief and up to 20% of discretionary relief. In 2013, new NNDR legislation was introduced which effectively meant that any relief is funded 50%/50% between local and central government.
- In our modelling we have assumed that a trust will be able to secure 80% rate relief on the current NNDR costs, half of which will be funded by the Council. The current NNDR liability under Council operation is £264,615 per annum. This will reduce to £52,923 (80% relief, or a £211,692 saving) under a trust operation. However, as the Council will be funding half of the value of this relief, the ultimate net benefit to the Council will be £105,846 (50% of £211,692).



Financial modelling

- In creating a financial model to show the likely impact of outsourcing the portfolio to a trust (which looks at the option of creating a New Trust as well as contracting with an Established Trust) we have used the 2013/14 in-house budget cost as a basis for both.
- We have applied to both scenarios the "Year 0" benefits of the VAT and NNDR savings. Going forward, we have looked over a 10-year contract horizon and applied the likely reasonable assumptions that each is likely to commit to in pricing its contractual management fee.
- In order to show a management fee that is directly comparable to the current cost on a like for like basis we have made the following assumptions:
 1. Support services are shown "above the line" in the trust business plan. In reality, of course, these will not be incurred by the trust but will remain with the Council. However, generally speaking, as a new trust would typically be more reliant on the Council's support services going forward, there will probably be less scope to reduce the scale of these in-house costs when compared to an established trust (which will be typically entirely reliant on its own head office for HR, finance, legal and IT resources).
 2. We have used the 2013/14 budgeted management fee for the Dolphin Leisure centre. Although this is planned to be demolished and replaced, potentially at a nil ongoing operating cost, to model this could confuse the analysis and overstate the savings achievable by outsourcing compared to remaining in-house.
 3. 10 year contract term (although these have been historically longer for new trusts created out of Councils, we have used 10 years to allow for a like for like comparison to be made between the options).
 4. 5% profit. An operator will seek to make a profit out of each contract it secures. 5% seems to be the current market rate. This allows some headroom for any adverse performance or any unexpected changes in income or costs. Over and above this, operators will factor in a charge to cover central overheads (typically this is between 5% - 7.5% currently).



5. Options evaluation

Proposed evaluation criteria

PROPOSED EVALUATION MATRIX

RAW SCORES

	Weighting	In-house	Existing Trust	New Trust
1 Level of Council influence	10.0%	3	1	2
2 Ability to transfer/manage risk	15.0%	0	3	2
3 Strength of financial covenant	15.0%	1	3	2
4 Potential for initial savings (NNDR and VAT)	12.5%	0	3	3
5 Potential for sustainable operational savings	15.0%	1	3	2
6 Flexibility for future asset strategy and adding add'l services	10.0%	3	1	2
7 Improvement in service delivery	12.5%	0	3	1
8 Scope for community partner involvement	5.0%	3	1	2
9 Scope for reinvesting surplus in service	5.0%	0	1	3

WEIGHTED SCORES

	Weighting	In-house	Existing Trust	New Trust
1 Level of Council influence	10.0%	10.0%	3.3%	6.7%
2 Ability to transfer/manage risk	15.0%	0.0%	15.0%	10.0%
3 Strength of financial covenant	15.0%	5.0%	15.0%	10.0%
4 Potential for initial savings (NNDR and VAT)	12.5%	0.0%	12.5%	12.5%
5 Potential for sustainable operational savings	15.0%	5.0%	15.0%	10.0%
6 Flexibility for future asset strategy and adding add'l services	10.0%	10.0%	3.3%	6.7%
7 Improvement in service delivery	12.5%	0.0%	12.5%	4.2%
8 Scope for community partner involvement	5.0%	5.0%	1.7%	3.3%
9 Scope for reinvesting surplus in service	5.0%	0.0%	1.7%	5.0%
Total score	100.0%	35.0%	80.0%	68.3%

9. Recommendations & Next Steps

Recommendations and Next Steps

- This report recommends that the scope of the facilities and services to be outsourced forms a coherent strategic package and one which an operator is most likely to be in a position to deliver best value to the Councils through a combination of service improvements and contracted savings.
- With best value as the primary objective, we would recommend *excluding* the management of the Council House, parks and open spaces (including cafes), public conveniences and the allotments. Including them in the package is likely to reduce the attraction of overall contract, thereby limiting competition. Whilst a single entity such as a newly established trust could operate these facilities, there seems to be no operational or strategic rationale for doing so.
- The financial modelling undertaken as part of this review indicates that average annual savings of over £780,000 could be secured if the package was competitively tendered to an existing established trust. This compares to just over £430,000 for a newly created trust.
- In reality, these savings could be greater once the replacement for the Dolphin Centre is factored in, and a more detailed understanding is achieved of what is included in some of the – significant – cost categories such as staffing, supplies and services, and property.
- On the basis of the technical and commercial evaluation criteria used within this appraisal, The Sports Consultancy would recommend the Councils pursuing the option of outsourcing the management of the portfolio to an existing trust rather than set up a new trust.
- Further scrutiny of the options should be undertaken, particularly to validate the VAT assumptions and analysis which we would recommend be overlaid on the 2013/14 actual performance, rather than the budget.
- Furthermore, regardless of which option the Councils ultimately choose to pursue, the scope for making future savings in support services should be explored further.



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