

Executive Summary

The purpose of this Business Case is to set out a case for transferring some elements of Redditch Borough Council's Leisure & Cultural Services to a wholly owned Council company.

This business case is presented using the Council's "5 Case Model". This is used widely in the public sector and other organisations to provide a consistent and transparent format which details all elements of a proposed project and enables members to make a considered decision based on all relevant information in relation to the proposal.

This business case covers;

1. The Strategic Case
2. The Economic Case
3. The Commercial Case
4. The Financial Case
5. The Management Case

Should the Council approve the proposal to establish the Council Owned Company (NewCo) to accept the transfer of the Facilities and Services as set out in the proposal, a Business Plan covering the first four and a half years of NewCo's operation will be presented to the Council for consideration.

As NewCo's MD is unlikely to be in post prior to 1 October 2018 (when it is proposed that services would be transferred to NewCo), a consultant would be appointed to prepare the Business Plan on behalf of NewCo. The consultancy team will be supported by existing council officers from specialist area who will work to ensure that suitable and sufficient information is made available to prepare the Business Plan by July 2018.

Subject to approvals and further consultations, the objective would be to commence the new arrangements on 1st October 2018 in order to secure half year benefits in the financial year 2018/19.

By establishing a company that is 100% owned by the Council, the Council would continue to have direct strategic control over leisure provision and would be able to maintain close democratic oversight over NewCo through governance arrangements that would involve the approval of annual Business Plans.

The savings would only be achieved if the NewCo is set up to succeed, and given sufficient freedom to operate commercially, with innovation and with the ability to respond to market demands. It should be given "wings to fly". It is assumed that the Council would require the company to demonstrate excellent employment practice, to invest in staff and recognise the Trades Unions.

A range of assumptions apply to the Business Case. These have been developed through project workshops with input from Members, the executive and [senior officers. These assumptions underpin the key objectives of this project and the detailed modelling that has been undertaken when producing this business case.

These are listed at Schedule 5. The services within scope of transfer, and subject to this Business Case are:

- Abbey Stadium
- Forge Mill
- Palace Theatre (including Youth Theatre)
- Allotments
- Pitcheroak Golf Course
- Community Centre

Introduction

A number of reports have been presented to members over the past two years, updating on the intervention work undertaken by the Leisure and Cultural teams.

The Overview and Scrutiny and Executive reports in July 2017 detailed the actions that had been taken to increase income, reduce costs or enhance the customer experience. Members requested that a number of further actions be undertaken.

These actions included:

- Undertake survey work with residents to understand why some members of the community do not use Council facilities and identify services that would encourage more use.
 - *Status - This has been undertaken and the views reflected in this business case (summary of the outcomes of the survey are included as Schedule 1)*
- Undertake a feasibility of the Palace Theatre to establish the cost benefit of altering the venue to provide more seating and improved access to the box office. This is to include the benefits of retaining VAT on the cultural income
 - *Status - Specialist architects have been commissioned to ensure that the redesign meets the planning requirements of any redevelopment. A review of the option to apply Vat exemptions for cultural activities was carried out and the measures considered not viable due to the risk to the Councils partial exemption threshold¹*
- Undertake a review of the Redi Card to ensure this best meets the needs of the vulnerable members of the community.
 - *Status - This was approved by Council in October 2017 and implemented on 8th January 2018*
- Undertake soft market testing with external providers to understand future provision with reference to community activities and influence.

¹ A risk which could have costly implications far in excess of the potential benefit. In the proposed model, there is potential for the exemption to be applied by NewCo, as the company will have its own Vat account and will not impact on the Councils partial exemption. The business case makes no allowance for this additional benefit as further work is required to ascertain the risks and benefits.

- *Status - The options appraisal by V4 Services in November 2017 considers the market position for the provision of community services*
- Provide a detailed external feasibility of the options available for both in house company and external market appraisal.
 - *Status - Status - The options appraisal by V4 Services in November 2017 considers estimated financial benefits from the different models applied to a range of services including community activities*

As detailed above, and in the report to the July 2017 Executive, and when taking into account the transfer of the operation of dual use facilities back to the academy school trusts a significant amount of work has been undertaken to ensure that the Leisure and Cultural services operate as efficiently as they can be within the Council structure.

To generate further savings, the Council has therefore considered a range of alternative delivery models that have the potential to deliver further efficiencies and savings.

The options appraisal by V4 Services completed in October 2017 considered a wide range of options including continued in-house delivery and the report is attached as Schedule 2.

The Medium Term Financial Plan includes a full year saving² of £440k to be delivered by 2019/20 in relation to the provision of an alternative model of delivery within Leisure and Cultural Services. In 2020/21 the saving figure is expected to reach £480k through continued savings within the Council's support services.

The recommended solution provides a balance between the required level of savings, whilst allowing the Council to retain a higher level of strategic control and influence over the services and facilities within scope of this review. The Council will be able to maintain strong democratic oversight within a governance structure as set out below.

This arrangement will also allow the Council to manage the contract with a light touch approach that reflects the fact that this is a fully owned Council company thus avoiding some of other pitfall with other models.

² Based on the current costs 2017/18

1. THE STRATEGIC CASE

1.1 Organisational Overview

The Council currently operate Leisure and Cultural Services in-house; with staff directly employed by the Council; providing a wide range of cultural, sports, entertainment and recreational activities for residents and visitors to the area.

The Council directly employs approximately 700 full time equivalent staff (FTE), with approximately 55 of these FTE staff employed within the Leisure and Cultural Services within scope of this business case (around 8% of the Council workforce).

It should also be noted that there are also a number of casual workers, volunteers and self-employed freelance instructors that are involved in the delivery of the transferring services but due to their non-employment status they do not feature within the above breakdown. However, it will be essential for the NewCo to continue to work with and alongside these individuals in order to continue to deliver services after the date of transfer.

The proposal only involves the transfer to NewCo of services and facilities which are provided by Redditch Borough Council for the Borough of Redditch. The establishment of NewCo and the transfer of services to it does not therefore directly impact on the shared service arrangements with Bromsgrove District Council. However, the transfer of the services to NewCo will change and reduce the leisure and cultural services which remain with the Council and a renegotiation of the shared service arrangement for Leisure Services with Bromsgrove District Council is likely to be necessary.

The Council has already implemented alternatives to continued in-house operation, in order to improve service efficiency. From October 2017, the management of the 'dry side' leisure facilities at Kingsley Sports Centre on the site of Tudor Grange Academy transferred to School Lettings Solutions (SLS), the UK's largest provider of dedicated community lettings service for schools. From the same date the facilities at Arrow Vale Sports Centre on the site of RSA Academy Arrow Vale were taken over by local sports coaching company P&E Sports, who already work in Redditch and play a leading role in the provision of community-based sports coaching.

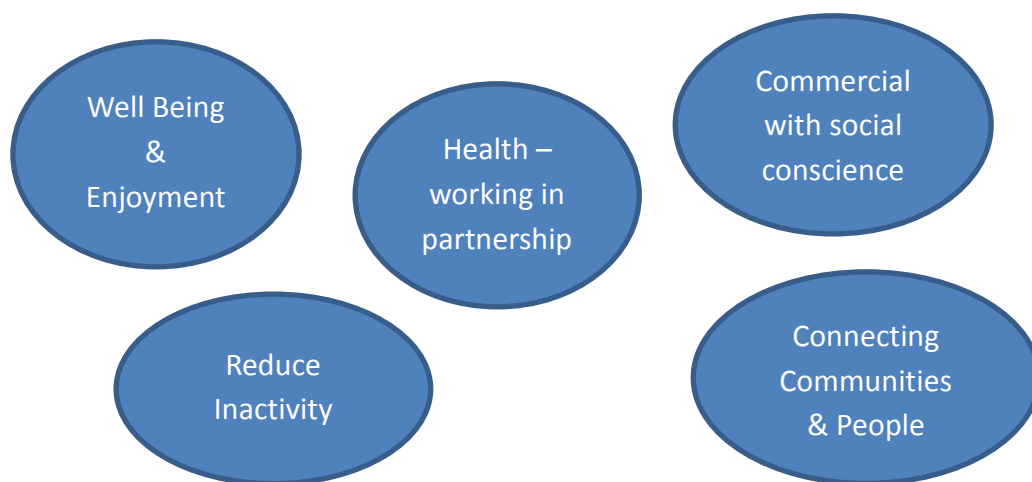
The transfer of Leisure and Cultural Services to the NewCo as proposed would have far reaching implications for the Council and its support services. Transformation would not be limited to those services (and staff involved in their delivery) that transfer to the NewCo, but also to those Leisure and Cultural Services that are not transferring and the Council's support service teams. The proposed savings would be dependent on transformational change in all of these areas. There will be considerable demands upon the Leisure and Cultural Services team and on colleagues in the support services to work with the consultants to develop the Proposal and Business Plan, whilst continuing to manage the services and work on transformational workstreams. Adequate internal and external resource will be needed to achieve the project objectives and maintain service continuity.

1.2 Current Business Strategies

Leisure and Cultural services support two of the main Council Strategic Purposes – which is to *“Provide good things to see, do and visit”*, whilst also playing a large role in *“Live my Life Independently”* given the large volume of work associated with *Health & Being* and its links to physical activity.

In its work to provide *“Good things to see do and visit”* and *“Live my Life Independently”* the Council draws together a number of themes that together aim to achieve the overall purpose.

These are



These five themes underpin the delivery and achievement of the strategic purpose.

The Redditch Council Plan 2017 – 2020 sets out the key actions to deliver to support the strategic purpose. These are:

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

The proposed delivery model will support the key actions identified in the Council Plan, as this requirement will feature in the Service Specification (being the document that sets out the scope of services that the Council will procure from NewCo, and how the Services are to be operated). The Key actions associated with the above Strategic Purposes from the Council plan will also be reflected within the Proposal and Business Plan to be submitted in July 2018.

In considering the Strategic Purpose and the future delivery of the element relating to Leisure and Cultural Services it is also important to refer to the *“Active Redditch” - Sports and Physical Activity Strategy 2017 -2022*.

This strategy sets out the Council's key objectives in supporting the community of the Borough to improve its level of health and fitness. In addition, the provision of arts and cultural activities to the community to improve health and wellbeing is also addressed.

The development of an Arts strategy is one of the key actions within the Council Plan, and the aim is to deliver this during 2018/19. As part of this work and the development of the service specification the role of the Palace Theatre will remain as a key outlet for artistic performance and community engagement for the local community.

Whilst the Council aims to be more commercial in its approach it is mindful of the social needs of the community and in particular those who are most vulnerable and the key role the services play in wider partnership agendas such as the County Health and Wellbeing strategy, the Children and Young People Plan and the work of the Redditch Partnership, all of which aim to improve residents' quality of life.

There is an ambition within the Active Redditch Strategy to target inactive communities in Redditch by providing activities that are inclusive for all abilities and:

- Encourage family participation
- Develop grassroots sessions
- Create social networks and opportunities
- Target local communities
- Free park events
- Work with partners
- Subsidise activities
- Support vulnerable / low income families to become active
- Enable Cycle routes
- Support Disability Training opportunities
- Provide arts and cultural activities and events

By developing the Specification for the NewCo, the Council can ensure the Services are being managed to deliver the strategy and this will also enable the Council to protect the most vulnerable members of the community.

The Council's Commercialisation and Financial Strategy (October 2017) underpins the Council's approach to commercialism. By adopting a commercial approach to service delivery, the Council intends to achieve efficiency savings whilst generating income.

At the heart of this proposal is the requirement to facilitate a new approach to developing and managing the Leisure and Cultural Services along more commercial lines in order to maintain and enhance services. However, this will not be at the expense of meeting current and future customer needs or maintaining quality services, which continue to be priorities for the Council. Services will, if anything, be even more accessible and affordable to local people.

This proposal is perfectly aligned to the Commercialisation and Financial Strategy. NewCo must be incentivised to achieve and exceed its agreed Business Plan objectives, by reducing the level of Council subsidy even wherever this is possible. NewCo would benefit from a share of this above target performance in a “gainshare” agreement that will be developed in the Proposal and Business Plan. This will enable NewCo to build some reserves to create a contingency and to enable them to become more resilient to trading challenges in years to come. It is proposed that the first £100k of any additional (above target) saving is retained by NewCo, and thereafter the additional savings is shared 50/50. It is important to note that NewCo can only use their funding for the provision of the Services and in accord with the Business Plan they will agree with the Council each year.

1.3 Spending Objectives

In February 2017, the Council considered how £2.8 million of savings could be found over the four years to 2021/22. The Medium Term Financial Plan includes £440k to be delivered by 2018/19³ from Leisure & Cultural Services. Subject to the approval of the Council in March 2018, the plan is to deliver this saving by deploying an alternative delivery model (ADM). Of this sum, c. £40k will be delivered by support services savings which can be generated as a result of the deployment of the ADM with a further 40K of funding expected in 2020/21.

By the end of the fourth full year of trading the aim is to secure savings of c.£520k per annum without reduction in the services offered to the Community (offering value for money by delivering the “same for less”). With further capital investment, efficiencies and transformation the aim is to deliver “even more for less”.

Based on the revenue out-turn figures from 2016/17, the current net revenue subsidy for Leisure and Cultural Services⁴ is a little over £1m per annum (excluding central costs and depreciation etc.). This is based on an operating cost of over £4m, with income generated across the service totalling just under £3m.

A saving of c. £440k will represent a reduction in net revenue subsidy of more than 40%>The £400k saving attributed to Leisure and Cultural Services is the highest savings target attributed to any service area within the Council and equates to £33k per calendar month. As such any delay in the project will impact upon RBC's in year savings by the corresponding amount

Services within scope of this business case account for a large proportion of the remaining subsidy. The services within scope of transfer, and subject to this Business Case are:

- Abbey Stadium
- Forge Mill
- Palace Theatre (including Youth Theatre)
- Allotments

³ Full year equivalent

⁴ Including some services not subject to this review

- Pitcheroak Golf Course
- Community Centre

A review and proposal will also be developed around the services at Arrow Valley Countryside Centre and Learning on Line and the potential to exit from the current operational arrangements between April and July 2018. These proposals will be predicated on the basis that they will have no adverse impact on the required savings. Should they demonstrate that they offer benefits to the Council and the NewCo then a recommendation will be made to members within the Business Plan. The overarching arrangements, if approved, would have provisions for changes to the range of services and facilities to be delivered by the NewCo in the future.

Other facilities and services may be included at a later date subject to individual business cases being agreed by the Shareholder. RBC as shareholder would also have the ability to bring services and facilities back in house in the future if it so desired.

In 2016/17, the total operating income generated from the services above was £1.88m, with a total operating expenditure of just over £2.75m – representing a net revenue subsidy (before overheads and management charges) of £858k.

In addition to this, there are a further £478k of support services charges and management overheads – this is based on 17.4% of the net operating expenditure in 2016/17.

The proportion of overhead costs is to increase to 18.56% in 2017/18 – further increasing the overall cost of delivering the service.

1.4 Existing Arrangements

The Council currently operate and maintain a wide range of Leisure and Cultural facilities, and related services. The table below sets out the facilities currently provided to residents, along with details of the condition of each venue.

Site	Date Built / Refurbished	Condition
Abbey Stadium Sports Centre	Major refurbishment and extension within past 5 years including addition of new pools wing	Functionally Good, but with inefficient layout that involves an extraordinary level of space that is not generating income. Significant potential for reconfiguration. Maintenance and Building presentation is very "municipal" and has resulted in finishes which are unattractive and overly functional. External car parking is limited at peak times and requires investment.
Redditch Palace Theatre (including Youth Theatre)	Built in 1914, and refurbished with extension in 2005	Well maintained and extremely well presented. Evidence of real care and attention to detail.
Forge Mill Needle Museum	c.1983	Fair but has a number of inherent design issues that could be overcome to increase the quality of the offer.
Batchley Community Centre	Unknown	Fair but in need of redecoration.
Oakenshaw Community Centre	Unknown	Fair but in need of redecoration and refresh of fixtures and fitting.
Windmill Community Centre	Unknown	Fair but in need of refresh of fixtures and fittings.
Winyates Green Community Centre	Unknown	Fair

Site	Date Built / Refurbished	Condition
Pitcheroak Golf Course	100-year-old course, club house not known	Club house is of wooden construction in fair to poor condition - Internally and externally tired. Course is in reasonable condition but requires investment in some areas to increase the attractiveness of the offer.

All of the properties would be subject to condition surveys which would inform the Business Plan. It is important to stress that the Council will continue to own all of the buildings and NewCo will be their tenant. The Council will retain liability for major repairs and will still need to fund the repairs and remedial works identified in the Condition Surveys. NewCo will need buildings which are well maintained and remain attractive and fully functional to achieve their Business Plan objectives.

It should be noted that all of the services within the scope of this business case are non-statutory with the exception of allotments. Section 23 of the Small Holdings and Allotments Act 1908, places a statutory duty on the Council to provide a sufficient number of plots⁵. The Council can discharge these responsibilities via other agencies and so the transfer to an ADM would not prejudice the Council's legal duties.

Artefacts that are owned or in the care of the Council would remain owned or in the care of the Council and would be made available for use by NewCo for the duration of the Contract.

Where new donations were made these would be made to the Council with the NewCo being responsible for administering the process and providing the Council with professional advice as required in such matters.

The Council would retain responsibility for the off-site storage of artefacts as required to make the collection available to the NewCo.

The services that are within scope of transfer also provide a contribution to the funding of the Council's central establishment. In 2016/17, this was estimated to be c. £656k. Overheads are apportioned on a percentage basis across each aspect of the service, in 2016/17, this figure was 17.4%, rising to 18.56% in 2017/18.

1.5 Customer Engagement Exercise details

It was agreed at the July 2017 Executive that there was a gap in understanding and knowledge of customer need and how the services provided are used by local people.

⁵ Though the quantity is not specified

A public engagement survey was completed in August and September 2017. A copy of the Outcome Report is included in Schedule 1.

A total of 1,669 valid surveys survey responses were received. This is by far the highest number of responses to any Council survey undertaken to date. The high number of responses should provide the Council with a degree of confidence that the views are representative of the wider community.

There were a significant number of comments that were included by those completing the survey which are useful in the context of this business case.

Frequency of attendance

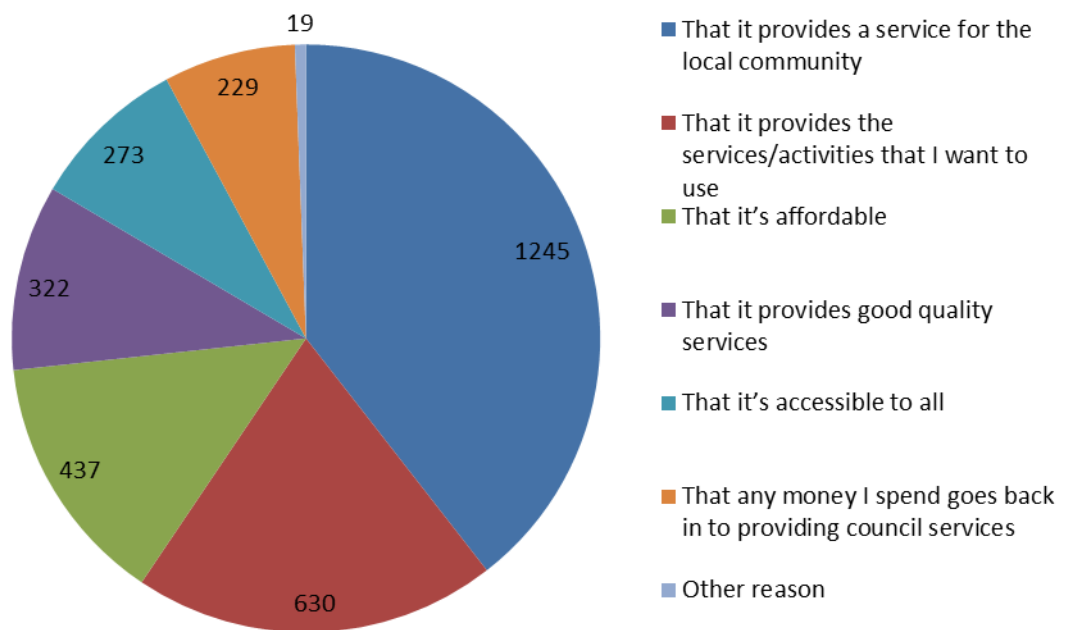
Whilst the frequency of attendance at the facilities may be of some interest, the comments inform members and officers of the reasons that attendance by some may be less than expected. For example, comments include:

- Desire to have an allotment (not available in my area at present)
- Difficulty accessing services – attributed to various factors including cost; the Abbey Stadium being too busy; transport issues due to living in a rural location; and lack of transport generally
- Not understanding “what sports and arts development are all about”
- Lack of awareness – due to poor advertising and / or promotion
- Removal of facilities, including the impact of the closure of Kingsley Pool
- Facility standards – due to poor maintenance of facilities and equipment

It is therefore important for this business case to consider how an alternative management model can help to address these issues in order to increase attendances and participation rates.

What do customers value most?

A significant number of respondents stated that they valued the fact that the services were available to the local community.



Comments/other reasons included:

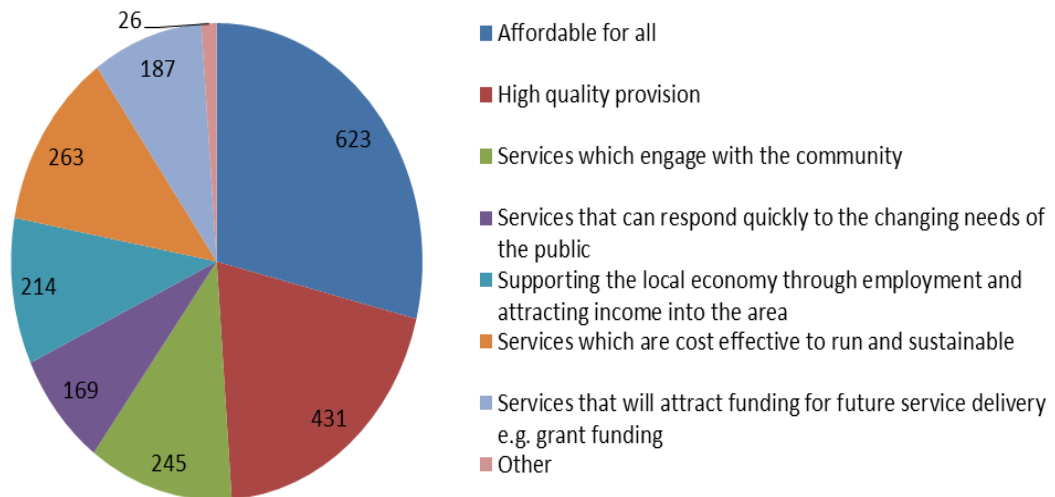
- Importance of a focus on health
- User affordability
- Provides value for money
- Importance of being community focused
- Importance of being run by the Council⁶
- Equal number of responses stated the importance of “not for profit” nature

The survey highlighted that value for money, community service and supporting the vulnerable were very important priorities for the community of Redditch. This underpins the strategic purpose of the Council, as set out in the Council Plan and the key priorities that were referenced earlier in this business case.

What is Important in Future Delivery?

When asked how important each of the following areas were in relation to the future delivery of the Council’s Leisure and Cultural Services respondents again were directed to the areas of social support in affordability and quality provision.

⁶ Although this can also be interpreted as being “provided” by the Council



Frequent comments/other important issues included:

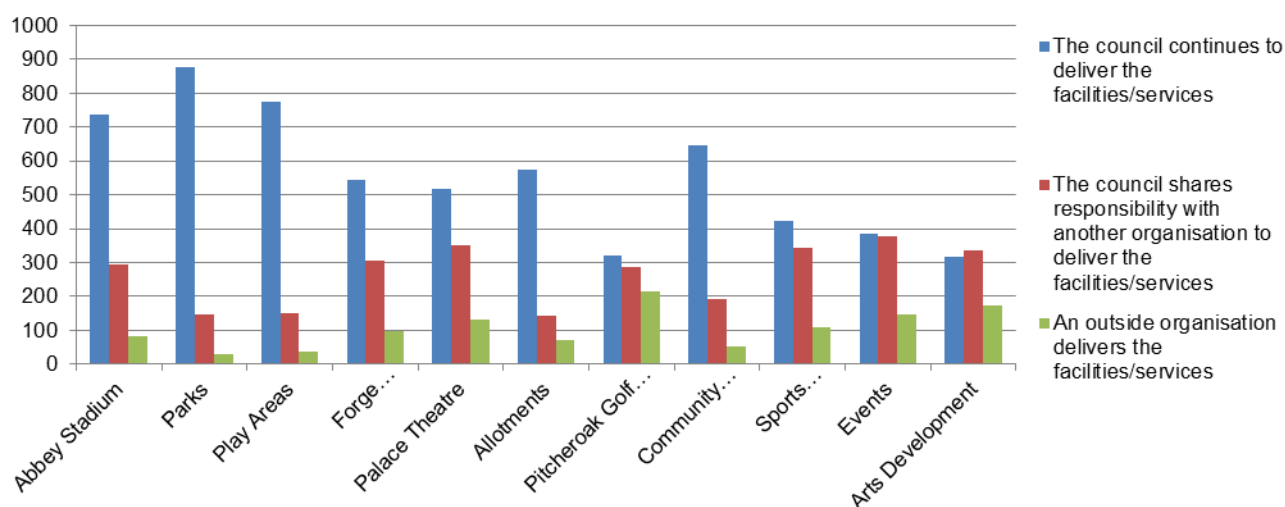
- Importance of a focus on health
- User affordability
- Importance of being community focused
- Importance of being not for profit
- Importance of effective management

The question that was clearly linked to the model of delivery asked respondents to select a preferred model. As can be seen below, the majority stated that they would prefer the Council to continue to deliver the services. They did not state under what model the Council would deliver the services however the results would support the establishment of LATC over alternative model that are available.

It is important to note the comments that were made in relation to the question:

Comments included issues such as:

- Not enough information to decide on the best model
- The importance of financial viability of any model
- The importance of ensuring user affordability
- The importance of effective management and a well-run service, regardless of the delivery model
- The belief that the model should be not for profit
- That the model should be community focused
- The importance of protecting local community assets
- The desire for accountability
- The potential for fresh input



The Council has an obligation to deliver services in the most economic and efficient way possible, this is a key aspect of the commercialisation agenda within the Council and a key driver that has led to the production of this business case and the key aims that underpin this work programme.

1.6 Business Needs – current and future

The Council is committed to the provision of Leisure and Cultural facilities which are accessible, high quality and affordable for local people.

The evidence of need for the Theatre is apparent, given the popularity of the programme and attendances. Benchmarking levels of provision for this type of facility is not possible. There are no reliable benchmarks to determine the level of community centre provision required in a given area. Heritage facilities meet very specific needs and have regional appeal.

Notwithstanding the above, there is evidence to support the continued investment by the Council in Swimming Pools and Sports Halls. The Sport England Study of 2015 indicated that the provision of swimming pool space within the Borough is substantially lower than in neighbouring boroughs or the regional average.

Total Supply	Redditch	Bromsgrove	Stratford upon Avon	Wychavon	WEST MIDLANDS TOTAL
Number of pools	3	5	8	5	298
Number of pool sites	2	4	7	4	219
Supply of total	558	1144	1698	1259	66378

Total Supply	Redditch	Bromsgrove	Stratford upon Avon	Wychavon	WEST MIDLANDS TOTAL
water space in sqm					
Supply of publicly available water space in sqm (scaled with hrs avail in pp)	414.76	932.19	1607	1191.84	52757.89
Supply of total water space in VPWPP	3596	8082	13933	10333	457411
Waterspace per 1000	6.6	12.0	13.9	10.6	11.5

There is also evidence to support the level of provision of sports halls in the Borough

Total Supply	Redditch	Bromsgrove	Stratford upon Avon	Wychavon	WEST MIDLANDS TOTAL
Number of halls	10	16	12	11	578
Number of hall sites	6	9	10	8	410
Supply of total hall space in courts	30	69.2	49.4	40.1	2631.1
Supply of publicly available hall space in courts (scaled with hours available)	27.99	37.98	38.25	32.36	1789.91

Total Supply	Redditch	Bromsgrove	Stratford upon Avon	Wychavon	WEST MIDLANDS TOTAL
in peak period)					
Supply of total hall space in VPWPP	7640	10370	10441	8833	488645
Courts per 10,000	5.1	7.25	4.05	3.38	4.57

1.7 Benefits and Risks

This business case illustrates the range of benefits that could accrue from the deployment of an alternative delivery model for Leisure and Cultural Services; both for the Council and the local community.

Some of the benefits are non-financial and relate to services being more responsive to the demands of local people and the improvement of services that can accrue from new ways of working and closer engagement with customers.

There are also very significant financial benefits. The Options Appraisal found that alternatives to continued in-house operation can generate substantial savings in VAT (estimated for the Abbey Stadium Sports Centre to be in the region of £150k per annum), and from Business Rate relief⁷. There remains some uncertainty around the actual value of the nett savings from the relief from Business Rates (for options that involve a non-profit distributing company). This is due to changing government policy on the proportion of business rates to be retained and the treatment of discretionary relief and how this is funded within “pooled” arrangements.

For the purposes of this business case a prudent figure of around £50k savings per annum is used. This represents a nett savings of c.25% of the current NNDR costs (this being the likely proportion of business rates to be retained centrally by government and therefore not lost to the authority if 100% relief is granted). However, the income growth figure is intentionally very modest and there is considerable potential for this figure to increase – to the extent that it can mitigate any reduction (or elimination) of the NNDR savings.

In all but the outsourced option where the price is contractually secured, the financial risk remains with the Council. Over a number of years there will be a degree of risk transfer as the company develops and generates reserves, and continues to improve

⁷ Subject at time of writing to verification due to complexities related to the governments new business rate retention scheme and due to Redditch being party to a “pool” arrangement

performance and reduce the dependency on Council subsidy. If NewCo fails to achieve the necessary transformation and for whatever reason is unable to deliver the savings, the Council will ultimately be required to provide additional funding (or revert to current arrangements).

1.8 Constraints and Dependencies for NewCo

Repair obligations

When transferring the NewCo will for the buildings under lease be responsible for the management the facility management and associated costs that were previously the responsibility of the Council.

In the short term NewCo will enter into an SLA with Place Partnership on the same arrangements as those of the Council for the continued provision of these services.

Within the new arrangements the NewCo will be responsible for the oversight and management of Place Partnership services and will have direct control over the budget for these matters. This will necessitate a review of the current budget allocations within the Council to ensure sufficient funds are retained by the Council and released to the NewCo so that both parties can meet their obligations under the lease arrangements to each other, and fund the works identified in the Condition Surveys when they are available

In the longer term NewCo may choose to explore alternative ways of meeting its repair and maintenance responsibilities. Any alternative arrangements would be subject to shareholder review through the business plan.

Support services to be “bought back” from the Council

In the first year to 12-18 months of the contract, NewCo would also be dependent upon the Council to provide a range of support services. The table at Appendix 3 provides information about which services would be bought back, and what the initial term of the arrangement would be. The charge to be applied is yet to be agreed, but would be contained within the affordability envelope and with due regard for irrecoverable Vat.

After the initial term NewCo would be able to explore alternative options for the delivery of services. The implementation of any alternatives would be subject to shareholder review through the business plan.

NewCo would have a duty to be economic and efficient – and this would include identifying potential savings in the purchasing of support services. Within the first twelve months of operations, NewCo would review the options for the future provision of support services and make recommendations to the Board and the Shareholder.

2. THE ECONOMIC CASE

2.1 Critical Success Factors

As part of the optioneering process that informs this business case, a number of critical success factors have been identified which will enable the Council to ensure it continues to provide Leisure and Cultural Services in line with the Council Plan – with the particular consideration of “good things to see, do and visit” and “live my life independently”.

That said, one of the most important factors when considering of the business case for implementing an alternative service delivery model is the level of savings it is able to generate, against the Medium Term Financial Plan initial commitment of £440k.

Whilst savings delivery is an essential pre-requisite, the Council has identified the following critical success factors for the future delivery of Leisure and Cultural Services in the Borough.

Commercial with a Social Conscience

- Savings - potential over 10 - year term (with £440k in the first full year of trading⁸)
- Ability to determine and adapt pricing and programming policy
- Ability to secure grants and attract inward investment
- Ability to mitigate impact and deliver savings on support services staff and systems
- Ability to effectively impose staff protection measures
 - Complexity - transformation and / or deployment issues

Reduce Inactivity

- Ability to get more people, more active, more often
- Ability for Council to implement improvement and change over the term
- Degree of Council control, and client resourcing demands

Health - Working in Partnership

- Alignment with future funding models - health commissioners etc.

Connecting Communities & People

- As per measures frame work agreed

Wellbeing & Enjoyment

- As per measures framework

These critical success factors were used as the criteria against which the shortlisted options were evaluated and are the basis upon which the recommendation has been made. The greater the ability of each option to achieve each of these success

⁸ Savings in 2018/19 Pro Rata (commencement on 1st October 2018) _

factors, the higher the option scores. Factors have been weighted by the Council depending upon their importance – the summary of the overall scores is shown below, and the full evaluation of these options in the Options Appraisal at Schedule 2

2.2 Alternative Options Considered

Officers worked with V4 Services to develop a comprehensive Options Appraisal, and the following information is provided for information and to demonstrate the rationale which led to this option being advocated in the Business Case

The full range of options included

- **In-house operation** (essentially retain the status quo))
- **Private sector operator/s** (procured through OJEU procurement route)
- **Private sector operator/s offering “Hybrid NPDO”** arrangements (procured through OJEU procurement route)
- **Locally established Trust** – not possible unless as an outcome of a procurement event, after 2015 due to changes in procurement regulations
- **Existing NPDO (Trust)** – not possible unless as an outcome of a procurement event, after 2015 due to changes in procurement regulations
- Tactical contracts (multiple)
- **Local authority company** (as recommended)
- Joint venture company
- Partnering contract
- Framework agreement
- Design, build, finance and operate (DBFO) – including Public Finance Initiative (PFI)
- Closure or disposal

Status quo; do nothing option

Whilst the status quo is considered as an option on the long list of possibilities for Leisure and Cultural Services, the current net revenue subsidy of c. £1m and the required level of savings for the service, as identified in the Council’s Medium Term Financial Plan, means that this is not a viable or sustainable option and has therefore not been taken forward for consideration in the final appraisal of options. It has been recognised that an alternative means of provision is required to have the potential to generate the level of savings required in the next four years.

Appraisals of Costs and Benefits

The critical success factors have been compared to the general features of each of the shortlisted service delivery models. The outcome of this exercise is shown below, taking account of the relative importance of each driver, based on the following weightings being applied to each of the critical success factors.

Criteria	Weighting
<u>Commercial with a Social Conscience</u>	
Savings - potential over 10 - year term	15%
Ability to determine and adapt pricing and programming policy	10%
Ability to secure grants and attract inward investment	10%
Ability to mitigate impact and deliver savings on support services staff and systems	5%
Ability to effectively impose staff protection measures	8%
Complexity - transformation and / or deployment issues	8%
<u>Reduce Inactivity</u>	
Ability to get more people, more active, more often	12%
Ability for Council to implement improvement and change over the term	10%
Degree of Council control, and client resourcing demands	12%
<u>Health - Working in Partnership</u>	
Alignment with future funding models - health commissioners etc.	10%

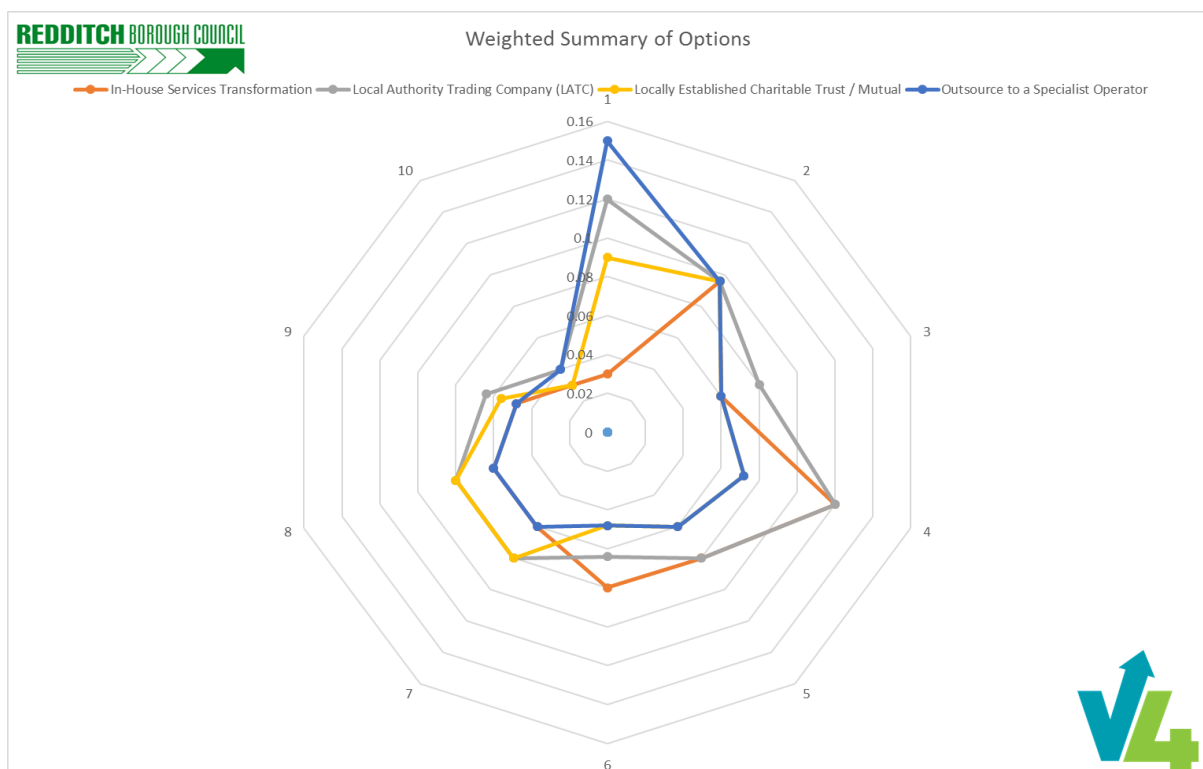
The financial and non-financial appraisal of options are set out below.

The tables and infographics below show the results of the objective comparison of the range of viable options, and the relative scores against each criterion for each option.

Unweighted summary	Savings - potential over 10 year term	Ability to get more people , more active , more often	Ability for Council to implement improvement and change over the term	Degree of Council control, and client resourcing demands	Ability to determine and adapt pricing and programming policy	Ability to effectively impose staff protection measures	Alignment with future funding models - health commissioners etc	Ability to secure grants and attract inward investment	Complexity - transformation and / or deployment issues	Ability to mitigate impact and deliver savings on support services staff and systems	Total Score
In-House Services Transformation	1	4	3	5	4	5	3	3	3	3	34
Local Authority Trading Company (LATC)	4	4	4	5	4	4	4	4	4	4	41
Locally Established Charitable Trust / Mutual	3	4	3	3	3	3	4	4	3.5	3	33.5
Outsource to a Specialist Operator	5	4	3	3	3	3	3	3	3	4	34

Option Name	Total Score
In-House Services Transformation	66.40%
Local Authority Trading Company (LATC)	82.40%
Locally Established Charitable Trust / Mutual	67.20%
Outsource to a Specialist Operator	69.40%

Option Name	Total Score
In-House Services Transformation	34
Local Authority Trading Company (LATC)	41
Locally Established Charitable Trust / Mutual	33.5
Outsource to a Specialist Operator	34



From the analysis of the options, the Local Authority Trading Company is the highest scoring option with 82.40%, and outsource to a specialist operator second at 69.40%.

2.3 Savings potential

The contracting out / outsourcing to separate organisation options would no doubt produce the highest savings, but the actual level of saving (and the terms) cannot be determined with any degree of certainty without a complex and costly procurement event.

For all of the options, other than In-House, the savings would be similar in all models for NNDR and VAT, as all of the options would involve the deployment of a not for profit company capable of securing these concessions.

Further savings would usually be expected from contracting out to either an existing Leisure Trust or to a private sector operator. These savings derive from the fact that existing operators have well established systems in place for operating facilities which generate maximum income at lowest cost. Existing operators benefit from having an expert back office that have been developed with the sole purpose of operating leisure centres (sales and marketing, ICT, HR etc.). The increased income projections are, however, partly offset by a head office / profit contribution (market expectations in the range 5% - 7% of turnover).

However it should be note that although the out sourced model would offer the greatest saving it would invariable also offer the least amount of local design and control of services and would require a greater level of ongoing contract management due to the commercial nature of the contracting arrangements that would be implemented.

Modelling suggests that all options would achieve savings from NNDR and VAT as follows (approximation). It is important to note that whilst the Council could benefit from the gross VAT levels, there would be a potential impact on the VAT that the Council can reclaim from expenditure through the partial exemption calculation.

The table below shows the elements which contributes to the overall savings potential, for a full year (in this case the first full year of trading). The table below provides a brief explanation of the rationale behind each element.

Element	Full Year 1	Note
Savings Requirement / Business Case	£440,000	The minimum savings requirement – that underpins the Business Case
NNDR	£53,500	Based on the assumption that NewCo will apply for and be granted 100% discretionary rates relief and that 25% of the value of the benefit is retained (the rest being effectively a lost income to the Council under the Pooled Rates / Council Tax retention system (as declared by government at this time)
Net VAT gain	£153,000	This is the sum of the extra income that the NewCo will retain when HMRC exemptions available for this type of organisation is applied for certain types of activity (such as casual swimming), less the cost of NewCo being unable to recover 100% of the input Vat (expenditure). Note that this is a dynamic calculation dependent on numerous factors that will change as the Business Plan is developed and the Trading activity established. It is not a fixed sum, but the figure used is considered to be a conservative estimate ⁹ .
Efficiencies	£100,000	NewCo brings together a range of services that have synergies and the potential to generate scale economies. This is a provisional sum considered to be a realistic target for the company to achieve as an outcome of introducing new ways of working, improved procurement and a range of other initiatives to be developed further and set out in the Business Plan (July 2018)
Income growth	£200,000	NewCo will be designed to operate more commercially within the social constraints set by the Council. The team recognise the potential for improved performance, particularly in generating income from Leisure Centre operations. This is a provisional sum considered to be a realistic target for the company to achieve and is conservative when compared to the growth in income

⁹ This cannot be an exact science as there is an interplay between the cost of services bought back from the Council and the choices yet to be taken about Repairs and Maintenance responsibilities etc. Changes to pricing will also impact on Vat efficiency. V4 are not Vat experts and this figure has been calculated together with Council officers and in good faith

Element	Full Year 1	Note
		achieved by similar companies in the sector elsewhere. The initiatives that NewCo will use to generate the additional income will be set out in the Business Plan (July 2018)
Back office / support cost savings	£40,000**	
		This is an approximation of a sum that could be generated from staff leaving who are in the LGPS (TUPE cohort or transfers by agreement) that benefit from the current employers' contribution rate, when replaced by new employees in a new Stakeholder pension with an employer's contribution rate which is up to 18% lower. This sum would be far greater in future years, and in each year would be dependent on staff turnover (and the incomes of the staff that leave). <i>This is based on the current assumption that the LGPS scheme is closed, and without the benefit of the actuaries' report¹⁰. A conservative figure has been used</i>
Term saving - pensions / 10 years	£15,000	
Balance for adjustments *	-£121,500	This is the difference in value between the sum of the identified potential savings elements and the absolute savings requirement (£440k)

**The balance for adjustments sum is the reserve available for contingency, to meet agreed none recurring costs, Vat / NNDR saving adjustments or other extra ordinary costs.*

***This is based on an initial £40k per annum saving from support services and may be adjusted to £80k in the Business Plan from years 2021/22*

The arrangements overall must be optimised for Vat and Tax efficiency.

It is important to note that the table above provides an estimate of the potential for savings. The commitment to save £440k is therefore considered to be prudent and realistic, allowing for some changes in the proportion of savings attributable to income growth if these are required to fund some none recurring set up costs and /or adjustments to the projected savings from NNDR / Vat.

A more detailed assessment of the potential for pension's savings to be carried out prior to the submission of the Business Plan in July 2018. The figure provided is a very conservative estimate for this stage only. In the detailed Proposal and Business Plan the savings potential will be modelled more accurately.

¹⁰ Pending

The Local Government Pension Scheme (LGPS) would remain available to existing members¹¹ who are within the TUPE cohort. The LGPS would however be closed to new employees joining NewCo after the date of transfer. New employees would be offered a stakeholder pension with an employer's contribution of 6% and employee contribution of 3%


2.4 VAT Savings

The VAT savings potential is complex and difficult to estimate with a degree of accuracy when some of the arrangements that impact on Vat efficiency are not yet finalised (value of Management Fee, SLA and R&M etc.). The estimated Net Vat Savings is considered reasonable at this stage. For this reason, a conservative figure has been used, and no allowance has been made for moving the status of some income from cultural events and activities at community centres from standard to exempt. This will be the subject of a Vat analysis by specialists within the first six months of trading post transfer.

Further explanation of the basis for the VAT savings and the rationale are provided in the technical [Addendum B of the full Options Appraisal \(Schedule 2\)](#).

2.5 Overall evaluation of options

When considered in totality the financial savings potential of each option, and their scores against the non-financial weighted criteria, the overall result is as follows:

Financial Savings Weighting		30.00%				
Non-Financial Appraisal Weighting		70.00%				
Option	Savings Potential	Savings Score	Weighted Score	Appriasal Score	Weighted Score	Overall Score
In House Transformation	£200,000	25.16%	7.55	66.40%	46.48	54.03
LATC	£575,000	72.33%	21.70	82.40%	57.68	79.38
Trust	£500,000	62.89%	18.87	67.20%	47.04	65.91
Outsource	£795,000	100.00%	30.00	69.40%	48.58	78.58

Option	Overall Score
In House Transformation	54.03
LATC	79.38
Trust	65.91
Outsource	78.58

The value of the score attributed to the achievement of financial savings has been moderated in the overall evaluation, ensuring that other none financial criteria related to the Council's critical success factors is given due weight.

¹¹ Staff who are not part of LGPS, but have the rights of membership must exercise those rights by 1st September 2018 (prior to transfer)

2.6 Preferred Option

The Options Appraisal analysis concluded that the “best fit” option involves the creation of a **Council owned / controlled not for profit company**, with company limited by guarantee status (variously referred to as a Council Owned Company / CoCo / NewCo). This is the option on which this business case is based.

2.7 Savings potential

If this business case is agreed and approval granted, a Council Controlled Company (as recommended) has the potential to reduce net operating subsidy by at least c. £220k for the 6 months October 2018 to April 2019, and by c.£440k in years two (2019/20) and by £480k in years three (2020/21) and four (2021/22), and up to £520k in year five (2022/23).

2.8 Control and influence

The NewCo Board of Directors - would initially comprise of up to seven persons, including:

- the Managing Director,
- two Senior Council officers, and
- four non-executive Directors appointed via a transparent recruitment process¹².

Any decision to change to the composition of the Board would be reserved to the Shareholder.

Directors would only receive payment for expenses, unless approval is given by the Shareholder.

It is assumed that directors’ indemnity insurance would be put in place when the company was formed. An individual becoming a director would take on a range of duties and responsibilities about the way in which NewCo operates. Potential candidates may be put off from applying for (especially unpaid) posts if they are not shielded from personal financial risk, restricting the pool of talent and potential expertise that NewCo would be able to draw on.

The chair of the board of directors would be selected from the appointees to the board however the role of chair would be restricted and could not be filled by the Managing Director of the NewCo.

To facilitate Shareholder decision making, it is envisaged that the Council may wish to delegate this function to a Shareholders Committee. Appointments would be made at the Council discretion although it is anticipated that this would be through the outside bodies process at the annual general meeting of the Full Council, this would however remain a matter for the Council to determine post transfer.

¹² Must demonstrate local interest either by residency in the area or by business interest

A range of matters would be reserved for approval by the Shareholders Committee, including;

- Approvals for the appointment and dismissal of NewCo Directors
- Approval of loans over £20,000 , charges on NewCo assets , and contracts with terms of five years or more
- Approval of spending commitments above £250,000, or for duration of 24 months or remaining term (whichever is lower)
- Approval of Directors remuneration (if applicable)
- Appointment and remuneration of MD , and dismissal of same
- Approval of above inflation pay increases
- Approval of litigation defences or claims
- Approval of the appointment of bankers and auditors
- Approval of the annual Business Plan

2.9 Fit for the future

The review of the leisure and cultural services identified opportunities to bring a greater degree of commercialisation to bear and drive through operating efficiencies. Synergies between the facilities and services can be exploited more effectively. The new company is likely to be more attractive to some of the emerging funding regimes (including health commissioners) and in the medium to long term NewCo would aim to diversify and reduce its dependence on Redditch Council subsidy. A more commercial approach, balanced with social responsibility, is consistent with the Council Plan.

As a separate legal entity the NewCo will be eligible for alternative grants funding arrangements that as a council we could no access

2.10 Risk transfer

The recommended service delivery model affords very little risk transfer in the early years, but can achieve a degree of risk transfer in the future when reserves are generated, and the company grows and possibly diversifies.

2.11 Timescales for delivery

Services could be transferred to NewCo by 1st October 2018 (delivering a saving of around £220k for the half financial year 2018/19 (excluding set up costs), if a consultant is commissioned to produce NewCo's first Business Plan.

If it is preferred NewCo's managing director could be appointed and tasked with producing the business plan under which NewCo would commence its operation.

This will necessitate a later transfer of service to NewCo [estimated date] as it will not be possible to appoint and have a managing director in post in time to prepare the business plan for Council approval in July 2018.

3. THE COMMERCIAL CASE

3.1 Approach to Procurement

The planning and management for the establishment of the new company has been developed with a target implementation date of 1st October 2018, generating half year savings for financial year 2018/19.

Under the most recent EU Public Procurement Regulations (PPR 2015), the establishment of a wholly-owned Council not for profit company is Teckal¹³ compliant, and is therefore exempt from a competitive public procurement exercise. This regulation enables the Council to directly award the contract for the operation and management of the transferring Leisure and Cultural Services to NewCo.

Each year, the company would be required to provide the Council with a statement of compliance with Teckal requirements and state the %age value of its activities with the Council as a proportion of its overall activities (turnover value). The Council as shareholder would anyway set the scope of NewCo's activities.

Whilst the NewCo would not be statutorily required to follow the Council's own procurement procedures it would be required to comply with good practice and it would be required to comply with the Public Procurement Regulations (PPR 2015) due to the extent of control / influence exercised by the Council.

3.2 Service Requirements

The performance framework for the NewCo will be based around Five strategic themes:

- Operating more commercially, with a Social Conscience
- Reducing Inactivity
- Health - Working in Partnership
- Connecting Communities & People
- Well Being & Enjoyment

These are the strategic themes by which the Council will manage the performance of the company. Under these strategic themes there will be strategic outcomes with supporting success criteria and key performance indicators. Whilst the governance arrangements and reporting framework have been agreed, performance indicators are still to be finalised. The reporting framework will be based upon system thinking methodology and use a mixture of case studies, annual reports, qualitative & quantitative data sets, headline national benchmarking data sets and a balanced score card. There is a recognition that these need to be the most important measures of success and can only be based on the information that has been or is currently available (the baseline). As the NewCo progresses the reporting framework would be reviewed with the Council, to ensure it remains robust and valid and where applicable this would be varied to ensure the Shareholder is comfortable that the company continues to deliver its agreed outcomes.

¹³ Expert legal advice required to ensure compliance

The full set of service requirements will be set out in the Service Specification, which will contain details of the Council's minimum requirements and expectations for the services being provided. The measures of success in the Service Specification will be linked to the performance monitoring regime.

3.3 Charging Mechanism

For at least the initial funding period, NewCo would be subsidised by the Council in the form of a Management Fee, in just the same way as the existing in-house services are subsidised through Council budgets. If NewCo fails to achieve its Business Plan objectives and achieve the savings target, the Council will ultimately be asked to provide the necessary "top up" funding (or it may decide to terminate the arrangement and revert to in-house operation or procure an alternative). The first 18 months of trading will be particularly challenging for NewCo as it is projected to "hit the ground running" with savings delivered immediately. This will require transformational change in the run up to transfer, and there is a need to recognise that the savings trajectory within the business plan periods will not necessarily be flat lined (savings achieved over the period on average).

To achieve the requisite savings in line with the MTFP, the amount of funding provided to NewCo will be reduced over the initial funding period (4.5 years) and beyond.

NewCo will need sufficient revenue to fund its cash flow and begin trading as a viable business from commencement on 1st October 2018, therefore it would be anticipated that the first six months of Management Fee is provided in advance by the Council, and then quarterly in advance thereafter. The Management Fee must be standard rated for Vat purposes, in order to optimise the Vat position of NewCo.

3.4 Contractual Arrangements

The following chart shows the indicative contract and document structure that will be in place to oversee establishment and delivery of the NewCo. These documents will form the backbone of the Council's expectation from the NewCo, the contracted position between both parties, what and how services are delivered and it will be the basis that the NewCo will produce its business plan for submission to the Council in July 2018.

Funding and Management Agreement	Lease / License	Service Specification	Service Level Agreement for support functions	Company Registration
<ul style="list-style-type: none"> •Funding and performance mechanisms •Reporting requirements •Governance structure •Co-terminus with the Funding and Lease 	<ul style="list-style-type: none"> •Agreed term •Break provisions •Permitted use / special conditions •Repairs - respective responsibilities (L&T) •Peppercorn / none commercial terms •Co-terminus with the Funding and Management Agreement 	<ul style="list-style-type: none"> •Minimum opening hours •Pricing and programming requirements •Service standards •Quality assurance •Repairs and maintenance 	<ul style="list-style-type: none"> •Wrapper that defines initial term •Scope of services provided •Level of cost •Service standards - response times etc •Notice / termination provisions 	<ul style="list-style-type: none"> •Governing Articles •Objectives - community benefit and charitable in nature •Shareholder powers - relationship with Board of the Company •Confirmation of inability to distribute profits

Schedules to Funding and Management Agreement	Executive Directors - Job Specification	Senior Management Structure	Repair and Maintenance Responsibilities
<ul style="list-style-type: none"> •Business Plan (Initial 4.5 year term) •Inventory / Asset register •Indemnities - Council to Company •Investment proposals - initial term •Transfer provisions •Reversion arrangements •Reporting Calendar •Outcomes Framework •Communications Strategy •Pricing policy •Financial standing orders (delegated authorities) 	<ul style="list-style-type: none"> •Expense payments policy •Core skills and experience •Special skills and experience •Evidence of local interest (home or business) •Checks - Disclosure and Barring Service (DBS) •Insurance and indemnities (taken out by Company) 	<ul style="list-style-type: none"> •Reporting hierarchy •Lines of responsibility and accountability •Confirmation of inability to distribute profits 	<ul style="list-style-type: none"> •Matrix for Leisure Centre, Theatre, Community Centres, Heritage •Respective responsibilities for all building elements defined clearly •Used to ensure adequacy of funding for respective parties

A (funding and management) Contract would be in place between the Council and NewCo for the delivery of services within the service specification, the principles on how services are bought back and the associated costs/budget requirements

The Council would retain freehold ownership of the assets, with a standard landlord-tenant lease agreement in place based up on the maintenance schedules as per Schedule 3 .

The contract would be for an initial term of 30 years with break clauses at 5-year intervals after the initial ten-year term, and there will be provision for an extension of up to 10 further years at the sole discretion of the Council.

The option to break would only be available to the Council, and not to NewCo.

The Contract and Leases will be co-terminus, so that the termination of one (in respect of a facility/service)_results in the termination of the other (in respect of that facility/service).

3.5 Personnel (TUPE) Implications

Those staff that are primarily concerned in the delivery of the transferring services will transfer to NewCo under TUPE¹⁴. (“the TUPE cohort”). The TUPE cohort will retain their existing terms and conditions of employment at the point of transfer. New staff may be appointed by NewCo on new terms and conditions. Casual workers will contract with NewCo rather than the Council.

Whilst contractual terms and conditions would remain the same for the TUPE cohort, non-contractual policies may not be adopted by NewCo.

The impact upon services and structure that are not in scope for transfer will be addressed by the Council through its formal change management and service review process. It is anticipated that this work will be undertaken as part of the wider management review that is required as part of the Council efficiency statement for 2017 to 2021.

NewCo would declare in its TUPE measures statement that it intends to carry out a review based on economic, technical, and organisational requirements (an ETO Review) immediately on the transfer of services to it. This would be co-ordinated with the service review process for non-transferring leisure and cultural services so as to afford an opportunity for redeployment between NewCo and the Council (and *vice versa*) .

3.6 Accountancy Treatment

The accounts of NewCo will be separate from those of the Council, but reported in accord with Public Accountancy practice guidelines (CIPFA / Public Sector Accounting Standards Board (IPSASB) and the Financial Reporting Standards).

Internal audit functions will be supplied via the Council current arrangements with external audit requirements being procured by the NewCo to satisfy the above requirements.

¹⁴ Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014.

4. THE FINANCIAL CASE

4.1 Capital and Revenue Requirements

Capital

The Proposal and Business Plan (July 2018) may contain a proposal for the investment of capital to reduce the level of subsidy (prudential borrowing business case). Only proposals that have the realistic potential to generate efficiencies to fund borrowing requirements, and generate a further return on investment, should be proposed, and so the financial business case could only be strengthened.

Revenue – cost to the Council

The proposal to establish the NewCo will generate a saving¹⁵ of;

- Part year commencing 1st October 2018 - £220k - half year (2018/19)
- £440k in the first full year (2019/20)
- £480k in the second full year (2020/21), of which £80k will be contributed from support cost savings
- £480k in the third full year (2021/22), including the continuation of the £80k support service cost saving
- £520k in the fourth full year (2022/23)

4.2 Effect on Prices/Fees

Through the establishment of a Council owned company for Leisure and Cultural Services, the Council retain control of key decisions such as those relating to the strategy for determining fees and charges.

The requirements and expectations around fees and charges and the application of concessionary discounts will be set out by the Council in the Service Specification.

Concessionary pricing will be based upon the Oct 2017 policy that was approved by members as price should never be a barrier to access for a Council owned sport, heritage, entertainment or cultural facility.

Flexible pricing policies will be developed and will be used to encourage greater utilisation at all of the facilities within scope, as part of the strategy to reduce inactivity, and reduce social inclusion.

Pricing will not be disadvantageous to those who are most vulnerable. In the future, further savings can be used to keep prices as low as possible or be used to create targeted support programmes given that the NewCo will be a Non-Profit Distributing Organisation.

¹⁵ Compared to Nett Revenue Subsidy in 2016/17 base

4.3 Impact on Income and Expenditure

The establishment of a local authority trading company for Leisure and Cultural Services will have a positive impact on both the levels of income and expenditure within the service, which will contribute greatly towards the savings target of £440k in the first full year and £480K in subsequent years.

From an income generation perspective, it is estimated that adopting a more commercial approach to the management of leisure and cultural services and facilities will see an increase in income of approximately £100k - £150k per annum.

Additional income is also retained through the changes in VAT treatments for certain sports and cultural activities and the potential to bring the current externalised catering offers back within the company's structure.

Further annual reductions in expenditure can also be attributed to efficiency savings, estimated to be in the region of £100k, reduced back office and support service costs, estimated to be in the region of £40k and longer-term pensions savings, estimated to be at least £15k per annum - increasing over the term of the agreement as former Council employees leave and are replaced by new employees that benefit from a stakeholder pension¹⁶.

In total, the estimated increase in income and reduction in expenditure has the potential to generate an estimated net saving of up to £575k – over and above the £440k target outlined in the Council's Medium Term Financial Plan (and the financial basis for this proposal).

Other companies of this type and in this sector have achieved very significant growth in income and reduction in expenditure.

Some notable examples have eliminated the dependency on Council subsidy entirely within five years of their formation.

4.4 Overall Funding and Affordability including funding gaps

The Council will need to continue to provide revenue support to NewCo in accord with the Contract (Funding and Management Agreement).

Whilst a savings trajectory has been identified and the potential for savings to be delivered over the first four and a half years have been estimated, ultimately, if there is a shortfall in income and / or an increase in costs then the NewCo will seek to fill the funding gap from Council funds¹⁷.

Description	Year 0.5	Full Year 1	Full Year 2	Full Year 3	Full Year 4
Savings Requirement / Business Case	£220,000	£440,000	£440,000	£440,000	£520,000
NNDR	£26,750	£53,500	£53,500	£53,500	£53,500

¹⁶ Likely to be a 6% employers contribution

¹⁷ Until such time as it has its own reserves

Net VAT gain	£76,500	£153,000	£153,000	£153,000	£153,000
Efficiencies	£50,000	£100,000	£100,000	£100,000	£100,000
Income growth	£100,000	£200,000	£200,000	£200,000	£200,000
Back office / support cost savings	£40,000	£40,000**	£40,000**	£40,000**	£40,000**
Term saving - pensions / 10 years	£7,500	£15,000	£15,000	£15,000	£15,000
Balance for adjustments *	-£80,750	-£121,500	-£121,500	-£121,500	-£41,500

*The balance for adjustments sum is the reserve available for contingency, to meet agreed none recurring costs, Vat / NNDR saving adjustments or other extra ordinary costs. **This is based on an initial £40k per annum saving from support services and may be adjusted to £80k in the Business Plan from years 2021/22

The arrangements overall must be optimised for Vat and Tax efficiency.

5. THE MANAGEMENT CASE

5.1 Programme and Project Management Methodology and Structure

The project is being managed in accord with good project management practice based upon a tailored Prince II methodology, and has an established Project Board, Project Working Group, Project Sponsor; Internal Project Manager, Project Administration and specialist advisors have been appointed.

Fourth tier officers form part of the Project Working Group, with representations from key support services.

Staff and Trades Unions have been engaged in the process.

A number of internal working group sessions have been held around key works streams and these have support them production of the business case and the key assumption that have underpinned the key decision on the project.

5.2 Programme and Project Management Plans (high level initially)

Summary Timeline	2018											
	January	February	March	April	May	June	July	August	September	October	November	December
LATC (Fast Track)	Approval	Council Specification Issued	Business Plan and Proposal Submitted	Approval by Cabinet	Development of lease, shareholders agreement, funding agreemjtn and business plan					Commencement on 1st October 2018	Ability to go	
							Finalisation and Mobilisation					

5.3 Change and Contract Management Arrangements

The Contract would have provisions for change, including partial termination. Either NewCo or the Council would be able to propose change, and provisions would be made for addressing the consequence of change events (financial and non-financial).

In all matter related to the change management protocol the shareholder would be required to agree to any proposals submitted.

5.4 Benefits Realisation

Savings and non-financial benefits will be realised from 1st October 2018 in line with contract documentation, services specification and strategic measures framework.

5.5 Risk Management

The Business case risk register that shows the key risk associated with the paper and the risk mitigate methodology is included at Appendix 2. There is also a Project risk register for the stage 2 process which has been used to oversee the production of the business case.

Should approval be given to progress to stage 3 of this project and new risk register will be produced to cover these aspects up to the next key milestone which will be sign off of the business plan in July18.

Throughout the contract term, the Council will monitor and evaluate the performance of NewCo. This will be managed through a performance framework, containing a number of key performance indicators built around the Council's key strategic themes.

NewCo will strive for continuous improvement throughout the lifecycle of the contract, and the delivery of the services must be in line with the Council's five key outcomes, which will form the focus of the monitoring Regime. The regime will be outcome focused, whilst the Council recognises that the NewCo will need its own performance measures that will be measurable.

As the contracting authority, the Council will be able to request appropriate information from NewCo at any time, and the required response to both these requests and the requirements of the more formal governance framework will be set out within the Service Specification. The Service Specification will also set out the consequences in the event of NewCo failing to meet contractual requirements, and perform against the key outcomes.

As a Council owned company, neither NewCo nor the Council would benefit from the implementation of financial penalties and the inclusion of these within the contract is not advisable. NewCo would however, be providing written plans of action for achieving success in under-performing areas and will be monitored and measured against these accordingly. The service specification will set out the basis of these "rectifying mechanisms", and how they will be implemented.

The relationship with NewCo would be managed within a "light touch", outcome focussed reporting mechanism, and while the actual governance of this process still needs to be agreed it is imperative that the relationship is developed from a position of trust, and therefore the collecting of management information should be for the benefit of NewCo only, and does not need to be routinely provided with or monitored by the Council.

The NewCo would though provide suitable and sufficient information as defined in the Measures Framework to demonstrate that it is contributing towards the wider strategic purposes of the Council and local partners and that the NewCo is delivering its services in a manner that support the five key outcomes that underpin this project.

The Council will assign a named individual to be responsible for monitoring the performance of the partnership with NewCo.

5.6 Contingency Arrangements

The formal agreements would provide for reversion of all assets to the Council in the event of failure or termination of the agreements. Provided that the Council took over provision of the services operated by NewCo, NewCo's employees involved in the provision of those services would transfer via TUPE to the Council.

5.7 Redditch Assumptions

A number of the assumptions reflect the union position and the recommended proposals for members consideration

Pensions:

Union proposal is for pensions to be protected for all staff including new starters in the company

It is proposed that the Local Government Pension Scheme (LGPS) will remain available to those that are within the TUPE cohort, provided that they join the scheme prior to transfer to NewCo. The LGPS will also remain available to any Council employees not forming part of the TUPE cohort who transfer to NewCo by agreement with the Council as part of any restructure of the non-transferring leisure and cultural services. The LGPS would, however, be closed to new employees joining NewCo after the date of transfer (including former Council employees). It is proposed that new employees would be offered a stakeholder pension with an employer's contribution of 6% and employee contribution of 3%. There are a level of savings that are attached to the implementation of the new company and there would therefore be an element of savings that can be realised from this change to support the overall financial position for the Council

Stability of Workforce

Union proposal is for the workforce to be stable and there would not be an immediate restructure within the new Company

The transfer of the TUPE cohort of staff would enable the new company to provide services to the Council in their current form. It is proposed that there will be a recruitment of the managing director role prior to the Business Plan being developed and presented to members in July 2018. A restructure may be proposed by the company in the Business Plan. The company would need to demonstrate that this would enable them to deliver the Council's priorities in a more effective manner.

Support Services

Union proposal is that support services are retained indefinitely by the new company

It is proposed that the new company would buy back services from the Council, via a Service Level Agreement (SLA) that is based on the business and operational needs of the company.

To enable a smooth transition, the SLA would, in effect, provide for a “sunset agreement” which will exist for the first 12 to 18 months following commencement. Thereafter, NewCo may serve the Council with notice on any of the support services provided, subject to justification for doing so being presented to and approved by the shareholder (the Council).

Within the first twelve months of operations, NewCo would review the options for the future provision of support services and make recommendations to the Board and the Shareholder.

Full details of the buyback schedule for Council services can be found at Appendix 3

Terms and Conditions

Union proposal is that all terms and conditions are protected for the TUPE cohort of staff and new starters benefit from the same terms and conditions

All employees transferring to the new company under TUPE will transfer on their existing contractual terms and conditions and with the benefit of existing RBC contractual policies. The new company will not be legally obliged to apply non-contractual RBC policies although it may choose to do so therefore RBC cannot give a confirmation that all existing T&Cs and policies will be honoured by NewCo.

Union Recognition

Union proposal is that they are formally recognised by the new company

It is proposed that Trades Unions will continue to be recognised, and the new company will be a good employer in all respects

General

1. Standard landlord tenant agreement to repairs and maintenance – landlord responsible for structures / buildings, roofs, walls, gutters, drains and all major plant and equipment replacement NewCo responsibilities defined in R&M responsibilities matrix
2. Pension deficit does not crystallise, pension deficit at commencement and exit funded by Council
3. Council to act as guarantor for NewCo registration to LGPS (not a new admission agreement)
4. One off non-recurring costs of set up (e.g. finance, HR, IT systems) – to be funded by the Council (potentially from capital receipts)
5. Recruitment of Managing Director determined prior to July 2018 Proposal and Business Plan

6. Regardless of the Council's position, for the first 12 months of NewCo defined R&M elements to be carried out by Place Partnership
7. NewCo required to give 12 months' notice to Place Partnerships (not before 6 months) , and within that period NewCo will engage with the market for future provision of R&M with a view to driving efficiencies
8. NewCo will buy back relevant support services from the Council, at costing accord with the details in the Business Case
9. The regional NNDR pool will be accepting of these changes and this will not impact on potential NNDR savings
10. The NewCo will succeed in its application to be recognised as a qualifying body for the purposes of obtaining the Vat concessions in accord with VAT Notice 701/45
11. NewCo will be able to apply a cultural exemption in accord with VAT Notice 701/47
12. All prices and costs are at current values and no allowance has been made for inflation
13. All income attributed to 'Sales' at Abbey is retail income and will remain standard rated
14. The income derived from the Fee paid by the Council to the NewCo will be standard rated / plus Vat (to aid Vat efficiency)
15. The arrangements will be optimised to ensure Vat efficiency
16. The Council will make an advance payment to NewCo equivalent to two quarterly payments on or before the date of transfer to provide initial working capital/cash flow, and in advance quarterly thereafter
17. Given the current understanding of support services recharges, the Council will be reasonable in their estimate of the actual costs of support services to leisure, so as not to not jeopardise the future trading position of NewCo
18. Large scale items of Equipment will be gifted to the NewCo – to reduce set up costs and help during early years of transition
19. Company will procure their own suppliers outside of the councils' procurement (Best Value still applies) rules. RBC will make available to the NewCo the ability to buy from suppliers on framework agreements
20. Council retains ownership of Forge Mill current and future acquisitions and is responsible for storage and transportation of the collection
21. The Company uses a set of measures on the dashboard that is not reporting to the Council in order to run the day to day business, these will be made available upon request
22. The name of the company will be included in the July Business plan
23. New Co allowed to retain surplus as reserves (not exceeding nine months of net operating costs unless agreed by the Council) The company operate more commercially (within social context), to generate additional income in line with the 4-and-a-half-year initial business plan and savings trajectory – Surplus share agreement in place