

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

Relevant Portfolio Holder	Councillor Mike Rouse
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering, Director of Finance and Resources John Godwin, Head of Leisure & Cultural Services
Wards Affected	All
Ward Councillor Consulted	No
This report contains exempt information as defined in Paragraphs 3 and 4 of Part I of Schedule 12A to the Local Government Act 1972, as amended	

1. SUMMARY OF PROPOSALS

- 1.1 To advise Members on the progress that has been made following approval in March 2018, to set up a not for profit, Teckal compliant, Local Authority Trading Company (LATC/NewCo) to operate a number of the Council's leisure and cultural services subject to a final Business Plan being presented and approved.
- 1.2 To present the Business Plan summary and detailed report prepared by V4 Consulting with input from officers and Members which outlines the approach proposed to the delivery of services based upon the Council's previous committee decisions, Service Specification and Measures Dashboard.
- 1.3 To propose the governance arrangements for the LATC, its name and the financial and staffing implications of transferring service to an alternative model of delivery.
- 1.3 To provide a proposed timeline and key milestones for the establishment of the NewCo and the transfer of services to it.
- 1.4 To provide members with an opportunity to consider a number of investment proposals prepared by V4 consulting and officers that will expand and enhance the current service provision and increase the LATC's income, reducing its financial reliance on the Council.

2. RECOMMENDATIONS

- 2.1 **It is recommended that Executive consider the detail in this report, the V4 Business Plan and all other information provided and RECOMMEND to Council the following:**
 - 2.1.2 **Approval of the Business Plan at Appendix 5 to include the key assumptions at Section 8 and confirmation of a date of transfer as from 1st December 2018 for the following services:**
 - **Abbey Stadium Sports Centre**
 - **Palace Theatre and Palace Youth Theatre**

- Forge Mill Needle Museum and Bordesley Abbey Visitors Centre Inc. access to Bordesley Abbey Ruins
 - Community Centres at Windmill Drive, Oakenshaw, Batchley and Winyates Green.
 - Pitcheroak Golf Course
- 2.1.3 Approval of the establishment of a member panel to undertake the recruitment of the Managing Director and Non Executive Directors. It is proposed that this panel comprises the Leader, relevant Portfolio Holder and the leader of the opposition, or their nominees. This panel will be supported by 2 senior officers of the Council
- 2.1.4 Approval of, in principle, the investment opportunities as detailed in Appendix 6 and request officers bring detailed business cases to the Board of Directors for final approval
- 2.1.5 Approval of the funding of £55k from balances to fund an Electronic Point of Sale (EPOS) system to ensure the NewCo has the functionality to enable marketing, income generation and customer insight to be at its most effective
- 2.1.6 Approval of a transfer from balances of £74k to cover the period of the initially agreed transfer date of 1st September 2018 to the revised date of 1st December 2018
- 2.1.7 Approval of the measures framework as included in Appendix 3
- 2.1.8 Approval of the Company name as Forge Leisure Solutions trading as Forge Leisure

3. KEY ISSUES

Background

- 3.1 As Members will be aware at the Full Council meeting on 20th November 2017 a feasibility study was debated with regard to the preferred model for a number of services currently delivered by the Council.
- 3.2 At the meeting, Full Council agreed the Executive recommendation from the 31st October 2017, which was that:
- “Approval be given, in principle, to set up a not for profit, Teckal compliant, Local Authority trading company to operate the Council’s Leisure and Cultural Services and that a further report to Executive and Council be commissioned by officers in relation to a full business report for this model to include all governance, financial and staffing implications”.*
- 3.3 At the Executive Committee of the 6th March 2018 officers reported back on the work that had been undertaken thus far and present the initial LATC Business Case from V4 consulting.

Members then made the following recommendations to Full Council on the 20th March 2018 and the following were endorsed:

1. *That the Executive Director Finance and Resources be given delegated authority to set up and register a wholly owned LATC for the provision of leisure and cultural services in the Borough of Redditch, on the basis of the governance arrangements set out in Section 2.8 (Page 26) of the business case.*
2. *That the assumptions as included in Section 5.7 (Page 36) in the business case are approved for consideration in the Business Plan when reported to members in July 2018.*
3. *That a recruitment process is commenced for a Managing Director of NewCo and that the Executive Director Finance and Resources be given delegated authority to prepare a job description and person specification.*
4. *That Officers be instructed to prepare a specification for the services to be delivered by the NewCo and prepare a report to Members detailing the impact (financial and staffing) on Redditch Borough Council (RBC) of transferring those services to NewCo to be submitted to Members in July 2018.*
5. *The Council continues to work with V4 Consulting (with the support and assistance of officers) to prepare a Business Plan detailing how NewCo would deliver the services included in the Specification and deliver best value to RBC during its first 4 ½ years of trading.*

3.4 Over the past 6 months a large amount of work has been undertaken by a cross section of the Council's officers and our specialist support team from V4 Consulting in order to bring forward the report this evening and the associated documents that underpin the overall project. Below are the updates against the Full Council Recommendations list as shown above:

1. Company Set Up and Registration:

NewCo will be formally set up and registered following Council approval of the transfer of services to it.

The Company will be constituted in accordance with the governance arrangements approved by Council.

The Council will be asked to formally delegate its powers as Shareholder to a Shareholder's Committee (constituted of Members) which will oversee the Company and exercise the Shareholder's powers on behalf of the Council.

2. Key Assumptions:

Additional stakeholder sessions have been undertaken and the position with regard to the key assumptions has been agreed and communicated with Trade Union Colleagues and the services staff within the TUPE cohort

The Trade Union response to the key assumptions position is shown at Section 3.11.

Whilst a number of assumptions were approved by members in March 2018, these have been reviewed and have been used to form the Business Plan, confirm the savings within the business case are achievable, establish the company's governance arrangement and to set companies priorities in the short term.

Full detail of the key assumptions can be found at Section 8 of the business plan at Appendix 5

3. Managing Director Appointment:

The job description, person spec and role and responsibilities for the post have been drafted and evaluated under the HAYE model for senior officers by West Midlands Employers.

The recruitment is underway and as previously agreed will be a shareholder appointment. To enable the recruitment process to be undertaken prior to the Company establishment it is proposed that a panel is set up to appoint a Managing Director. It is anticipated that the Managing Director will commence work in December/ January with the company.

The selection process for the Managing Director will be a shareholder decision. A report will be presented to members in October to establish the Shareholder Committee. It is proposed that to enable the recruitment to take place prior to go live of 1st December a member panel is set up to undertake the selection process on behalf of the Shareholder Committee. It is proposed that this panel comprises the Leader, relevant Portfolio Holder and the leader of the opposition, or their nominees. This panel will be supported by 2 senior officers of the Council.

4. Service Specification:

The service specification, measures dashboard and default rectification mechanism have been drafted and agreed between the Council and the NewCo project leads. These documents form the backbone of the contract schedules that will be required in the period prior to 1st December and have been used by V4 as the basis for the Business Plan that responds to the Council's expectation.

A measures dashboard has been developed and is attached at Appendix 4. This shows the high level outcomes that the Council expects the Company to deliver. Officers are continuing to develop the NewCo operational and contractual measures in readiness for December 1st.

Restructuring Report:

The service review and restructuring report for the remaining client side functions have been finalised and the report can be found as agenda item to this meeting.

5. Business Plan

The draft business plan has been prepared and submitted to RBC officers for review and comment over the past 3 months. The plan and the investment proposals that support a further growth agenda have been agreed and the final document submitted can be found at Appendices 1,2 & 3. The plan has been structured in 3 parts;

Appendix 4 – the summary plan. This summarises how the company will deliver the councils priorities in relation to leisure and cultural services within an operational and legal framework

Appendix 5 – the detailed plan. This document details all of the operational, legal , governance, financial and performance mechanisms that have been proposed. *This will be considered in private due to staffing and commercially confidential information*

Appendix 6 – the investment proposals. These are the proposals presented by the company that will enable additional income to be generated and new and innovative facilities to be delivered to our community. *The financial details will be considered in private due to commercially confidential information*

3.5 Investment Proposals

Officers have consulted with leisure development experts Alliance Leisure Services Ltd (ALS) to look at the potential development opportunities across three of its major facilities. The investments have received appraisal by V4 to assess the rate of return on the investment to ensure financial viability and delivery of additional income to further develop the facilities in the Borough. As detailed in the business plan the key investments are:

Abbey Stadium Development: <ul style="list-style-type: none">○ Conversion of ladies ground floor changing into toning suite○ Extension to building for new adventure play facility○ Extension to current gym, and new functional training area○ Refurbishment of changing facilities and additional saunas
Palace Theatre: <ul style="list-style-type: none">○ Improvements to current design and layout of the building○ Additional bar capacity○ Additional auditorium seating capacity
3G and PARKOUR: <ul style="list-style-type: none">○ Conversion of the centre of the existing Athletics track to a modern 3G artificial pitch (it is anticipated that future S106 funding will meet the costs associated with this project)○ Creation of a PARKOUR outdoor free running space
Forge Mill Museum: <ul style="list-style-type: none">○ Upgrade to existing café and associated facilities○ Introduction of large destination play facility

<ul style="list-style-type: none">○ Introduction of adventure golf
Pitcheroak Golf Course: <ul style="list-style-type: none">○ Pavilion refurbishment○ Development of a Par 3 golf course

Officers are seeking agreement in principle from members in relation to the investment opportunities to enable these to be explored further by the NewCo. The company will then develop business cases for formal sign off by the Council as Shareholder in relation to funding mechanisms and key milestones.

A new Electronic Point of Sale system (EPOS) has been identified by officers and advisors as a fundamental element of ensuring the NewCo can improve service to the customer, grow the income and measure performance and usage in the future. It is therefore proposed that the EPOS system is implemented as a priority and therefore a release from balances is requested to provide funding for a system.

3.6 As part of the overall project and the establishment of the Business Plan proposal a number of key areas have been assessed/reviewed and documents drafted to ensure that the proposals meet the key objectives and priorities that were outlined in the earlier committee reports.

The following is a list of areas reviewed, further detail on these can be found in the Business Case previously provided and the Business Plan proposal from the LATC.

- Governance and Lines of Reporting
- Company Structures and Reserved Matters Powers
- Business Planning and Investment Opportunities
- Support Services Buy Back Schedules and Service Level Agreements (SLA)
- Funding Mechanisms
- Performance Regime and Default Rectification
- Risk Management & Allocations
- Asset Management Responsibilities
- Review of services in scope
- Proposed Staffing Structures (NewCo & L&CS)
- Staff Transfer – Transfer of Undertakings Protection of Employment (TUPE)
- Opening Hours, Approach to Fees & Charges and Protected Bookings
- Lease Arrangements and asset transfer

3.7 With regard to the overall set up of the project, this has been established using an adapted Prince II methodology using on a staged approach. Each formal committee decision has been treated as a gateway report to progress to the next stage.

Key stage commencement and completion dates are shown below:

Stage	Commencement Date	Completion Date
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Stage 1 – Concept and Feasibility	1 st Sept 2017	31 st Oct 17
Stage 2 – Detailed Business Case & Sign Off	20 th Nov 2017	19 th March 2018
Stage 3A – Business Plan Submission, Transition & Agreement to Proceed	10 th Apr 2018	24 th Sept 2018
Stage 3B - Implementation and Roll In	1 st Oct 2018	30 th Nov 18
Stage 4 – Transfer & Go Live	1 st Dec 18	N/A

3.8 Following the completion of each stage the project documentation will be refreshed and reissued to the Project Sponsor and Project Board for approval. As part of the Stage 3b process a mobilisation plan will be prepared and resourced including the establishment of an interim management structure to allow key staff to work on the project full time from 1st Oct 2018. This will ensure that the critical date of 1st December is achieved.

3.9 As part of the “review of the services that are within scope” a detailed discussion has taken place at the project board with regard to the Allotment and Pitches booking services. As members will be aware these currently form part of the parks shared services, should these service functions remain in scope there will still be a need for these to be provided to Bromsgrove District Council. Given that there is no obvious financial, structural or service benefit to these services remaining in scope, it has been decided that they should form part of the Leisure & Cultural Services restructuring to ensure a robust approach is maintain to service delivery.

The services which are considered to be within the scope of the NewCo and are included in the Business Plan are listed below:

- Abbey Stadium Sports Centre
- Palace Theatre and Palace Youth Theatre
- Forge Mill Needle Museum and Bordesley Abbey Visitors Centre Inc. access to Bordesley Abbey Ruins
- Community Centres at Windmill Drive, Oakenshaw, Batchley and Winyates Green.
- Pitcheroak Golf Course

3.10 As per the previous reports and initial feasibilities studies that were undertaken, all other services currently provided via the L&CS team are considered to be out of scope at this stage.

The impact of the proposed change in the model of delivery and the management arrangements for out of scope services is covered in a separate report that responds to the recommendations of this report. Should members

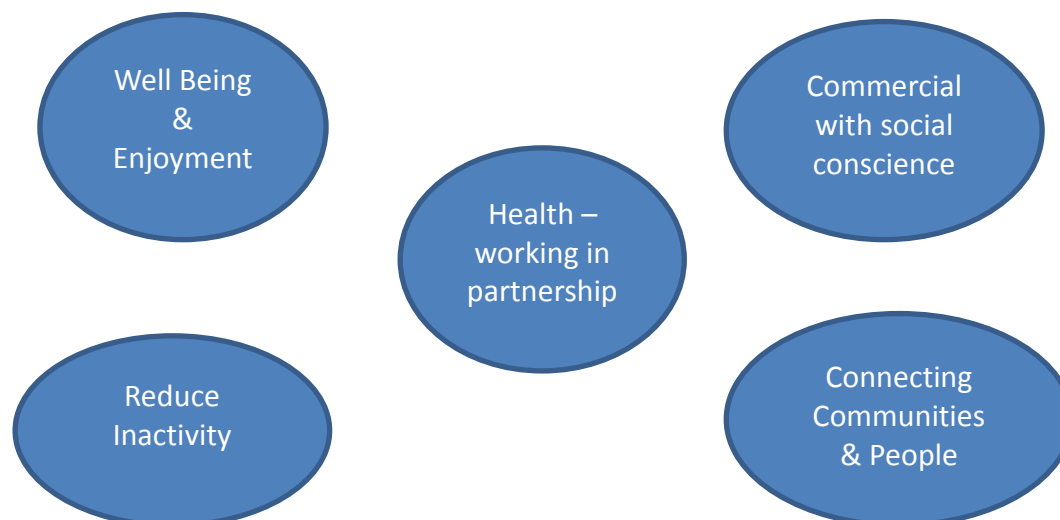
agree to the Business Plan proposal, a new service structure will be required within L&CS.

The NewCo will be constituted so as to allow other services to be transferred to it at the Council's discretion in the future. Services where future opportunities exist for additional services to be transferred include Arrow Valley Countryside Centre, BMX and Learning on Line. It is proposed that within the first 12 months of transfer that the NewCo is asked to bring forward business cases to members for consideration.

In cases where the Council develops additional services/facilities that require an external operator to be appointed, it is anticipated that Newco would take on the running of these services, subject to a robust business plan being in place evidencing that NewCo can offer best value to the Council in respect of these services/facilities.

- 3.11 Trade Union consultation and discussions have been held throughout the project and during Stage 3a to ensure that lines of communication are maintained and that there is a clear understanding of the Council's position and approach to the key assumptions. As reported previously the trade unions flagged a number of issues relating to the key assumptions being made. It is worth noting that the key concern for the trade unions is the ongoing protection of Local Authority terms and conditions in particular the ability for new staff to join the Local Government pension scheme. The assumptions proposed for consideration within the business plan reflect a closure of the scheme to new employees with a company pension scheme being in place. The TUPE cohort would have their terms and conditions, including pension, protected. In addition any staff currently employed by Redditch Borough or Bromsgrove District Councils who are successful in securing a role in the Newco by 1st March would also be protected in the same way as the TUPE cohort.
- 3.12 As part of the work of the project group, extensive communication plans have been developed and implemented to ensure that contracted staff, casual staff and self-employed freelance contractors have made fully aware of the Council's decisions and the current work that is being undertaken. This will continue for the remainder of the project and be widened out to a key stakeholder group once a formal decision has been made and Newco is in a position to feedback on service plans and key areas of work following the date of transfer.
- 3.14 The key drivers from the Oct 17 study, subsequent Executive Committee reports in Oct 17 & March 18 and Business Case detail have been used to establish the Council's expectations of the new company, the required governance arrangements and to produce the key documents that have been developed as part of the contract document suite.
- 3.15 The previous workshops that were held during Stage 2 and those held during Stage 3a have determined that the agreed themes and approach remained valid and with minor alterations would be used to guide the production of the measurers framework, service specification, business plan and the company's approach to service delivery.

The following themes support the delivery of the Council's Strategic Purposes of "Provide Good Things to See, Do and Visit" and "Help me to live my Life Independently".



These themes underpin the delivery and achievement of the strategic purposes and were used as part of the assessment of the preferred option with in the Oct 2017 report.

- 3.16 The agreed themes and the measures dashboard will ensure that the Council's Vision and Strategic Purposes are embedded in proposed Business Plan and the day to day design and delivery of the service to residents. It will further ensure that that the decisions and actions taken by the NewCo can be evidenced against the wider social/community based objectives the Council wishes to address, both now and over the course of the agreement.
- 3.17 During the work undertaken by the project group it has been identified that there will be a need to monitor satisfaction across the services provided by the NewCo. This will be based upon an annual survey to understand the benefits the changes have made, with a base line data set created pre transfer. Officers will introduce a work stream in Stage 3b of the project to set up and undertake an annual satisfaction survey providing information to review future service delivery and allow a longer term satisfaction analysis to be undertaken. This requirement features in the service specification and measures framework with the expectation that performance improves in the early years of the contract ,and then maintained in later years.

4. Financial Implications.

- 4.1 As Members are aware from the Oct 17 report, the Medium Term Financial Plan (MTFP) includes initial savings of £440k in 2018/19 (full year) rising to

£480k per annum from 2019/20 as a result of an alternative model of delivery within Leisure and Cultural Services.

As part of the report in March 18 the actual saving for 2018/19 within the MTFP was adjusted to £220k to reflect a start date of 1st Oct 2018. As members will be aware the proposed start date within the report is now 1st Dec 18, which requires a transfer of £74k from balances to fund the revised date of transfer.

- 4.2 This savings are broken down into two key areas with £400k per annum being delivered from the NewCo with the remaining amounts being delivered from within the Council. This is on the basis that savings will be realised from support services as there will be reductions in the Council services requiring support once NewCo is established. There will be a 'Sunset' agreement in place as detailed in the Business case to enable transition of service transfers to NewCo and to manage any associated costs. The 'Sunset' agreement sets out the provision for all services to be utilised by the Newco for a period of at least 18 months. It is important that any savings made by support services during the sunset agreement period are reflected in a revised charge to NewCo.
- 4.3 Members will see that the Business case confirms that these level of savings will be achieved primarily through a number of areas, including structure and taxation position, efficiency savings and business growth.
- 4.4 The overall Business case sets out key responsibilities that are assigned to NewCo with the responsibility for the ongoing repairs and maintenance to the majority of the building services. Within the schedule for the buyback of services, members will note that the NewCo will initially be buying back services via RBC from Place Partnership Limited on the same basis as the current Council Service Level Agreement (SLA). This will then be through RBC utilising the revised arrangements that are entered into by the Council once the transfer from PPL is complete in March 2019. This change of responsibility will mean that the cost and budgets associated with such works will transfer to the NewCo as the control of the spend and management of the building will no longer rest directly with the Council under the leases arrangements.

As part of the establishment of the revised RBC Property and Facilities Service teams, the expectation is that NewCo will be built into a revised SLA that will take effect as from 1st April 19.

- 4.6 As previously reported, it is proposed that any costs associated with the setup are met from the Council's existing Capital Programme and/or Capital Receipts in line with the flexibility from using capital receipts for revenue purposes if savings are generated from the initial investment.
- 4.7 It is proposed that any costs associated with restructures or redundancy within NewCo for the period up to transfer and within 12 months transfer will be funded by the Council. The potential maximum redundancy cost would be £250k.

- 4.8 That all equipment that is currently used in the delivery of the in-scope services and supplied by the Council will be gifted to NewCo in order to minimise set up costs. The company will then take on board responsibility for any future replacement and renewal costs in order to meet the needs of the business.
- 4.9 An actuarial report has been requested to ensure that the Company secures the necessary requirements to be part of the Local Government Pension Scheme.

5. Legal Implications

- 5.1 The Council would be able to trade through NewCo under the Local Government (Best Value Authorities) (Power to Trade) Order 2009, once Members have considered and approved a "Business case" for the enterprise. The Options Appraisal considered by Members in November 2017, the V4 Report, and the documents now presented to Members for consideration in September 2018 together constitute this "Business case".
- 5.2 The proposal is that NewCo would be set up as a None Profit Distributing Organisation Social Enterprise (NPDO). The V4 Report outlines various taxation efficiencies in Section 2.3 (Pages 22, 23, 24 and 25) that arise from this approach. As a NPDO, the NewCo would not be able to distribute profits to its Shareholder (RBC), any surpluses generated would have to be reinvested by NewCo into its services. If NewCo generates profits the Council as Shareholder should have reserved sufficient control to itself to allow it to be confident that any such reinvestment is in line with its' and the company's objectives, and offers best value to the Borough of Redditch.
- 5.3 Within the business plan V4 Report at Section 2.4 (Appendix 5) there is a detailed overview of the governance arrangements that would be established and operated by the NewCo to ensure it operates effectively, has good corporate governance and meets the aims of the Shareholder. If the NewCo commenced trading on 1 December 2018) the Council would need to keep these arrangements under constant review to ensure that NewCo continues to deliver best value to the Council and achieves the Council's Strategic Aims.

6. Customer, Equalities and Diversity Implications

- 6.1 The Newco will continue the work to identify customer need, demand, the key components required to achieve high satisfaction ratings and through the use of the measures dashboard the Council will ensure that the community and local partners are supported by the leisure offer and that the NewCo continues to deliver on the Council's Strategic Objectives.
- 6.2 From an equalities perspective the NewCo will be expected to support the Council's objectives in this area and respond to reasonable requests through its business planning cycle.
- 6.3 Officers have as part of this process undertaken an Equality Impact Assessment which will be used as Stage 3b progresses to ensure the above objectives are met and that the mobilisation plans consider these issues at all

stages. This will include the introduction of revised company policies to complement the existing Council ones.

- 6.4 A new name has been chosen for the Company which is predicated on being non geographic, capable of being multi layered to support all parts of the business and across all types of media. It looks to create a unique brand identity to reflect the aspirational decisions being taken by Members and the type of industry the company will be working within.

The new name that has been selected for the Newco is **Forge Leisure Solutions (trading as Forge Leisure)**.

It is felt that this name meets the above criteria and reflects the image the NewCo wishes to portray and will allow it to drive brand identity and loyalty with the Redditch and North Worcestershire, North Warwickshire and South Birmingham areas, to achieve it social and business objectives.

- 6.5 Office location – to enable the company to demonstrate its independence from the Council the aim is for the management team to sit outside of the main Town Hall building and utilise office space in one of the other Council premises.
- 6.6 As part of the establishment of the NewCo, the continued support of our Volunteers is critical to the company's success, and as such this has and will be a key area of work as part of the Stage 3a communications plan and Stage 3b mobilisation plan. As part of this work we will look to keep all stakeholder and volunteers appraised of the current position, the next stages and what any changes will mean for them. We will also ask the NewCo to consider its approach to volunteers to ensure they continue to support the services and to ensure that the huge benefits and the contributions they make to keep these key services running is fully reflected in future service plans.

7. Staffing Matters

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

Description/Position	Head Count	FTE
Remain within Shared Service	51	40.00
TUPE Transfer Cohort	66	49.76
Total	117	89.76

- 7.3 The approach to TUPE timeline, staff and union consultation has been discussed at Stage 3a in preparation for future discussion. However until a formal decision has been made, the detailed consultation and engagement plans will not be formalised. They will be in accordance with all statutory requirements and the Council's Reorganisation and Change Policy.
- 7.4 As part of the consideration for the new company a management structure is proposed to ensure senior officers are in place to develop and drive the improvements and investments needed for a commercial entity to thrive. A Managing Director post has been approved and will be recruited to and it is envisaged that the other posts will further enhance the structure to deliver future initiatives. The proposed management structure is included in the confidential business plan at Appendix 5.
- 7.5 The impact upon services and structure that are outside of scope for transfer will be addressed by the Council through its formal Reorganisation and Change Policy.

8. Risk Management

- 8.1 As part of the Project Plan there is a detailed risk register that shows the key risks associated with the implementation of the NewCo supported by risk mitigation methodology.
- 8.2 There is also a Project Risk Register for the Stage 2 & 3a processes which have been used to oversee the production of the key document by the Council, the project management approach and the production of the Business Plan.
- 8.3 Should approval be given to progress to Stage 3b a new Risk Register will be produced to cover these aspects up to the transfer of services on the 1st December.
- 8.4 The project has also been implemented onto the Council's Corporate Risk Register under the major projects heading but placed on hold as it is subject to a formal Council decision to progress. Should approval be given then this will be made live and monitoring of the risk mitigations (as per project risk register) commenced.

9. APPENDICES

Appendix 1 – Default mechanism
Appendix 2 – Service Specification
Appendix 3 – LATC Measures Dashboard
Appendix 4 – Summary Business Plan
Appendix 5 – Detailed Business Plan
Appendix 6 - Investment Opportunities

10. BACKGROUND PAPERS

- July 11th 2017 - Executive Committee Report
- October 31st 2017 - Executive Committee Report
- March 5th 2017 - Executive Committee Report

11. KEY

None

AUTHOR OF REPORT

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