

REPORT OF THE LEISURE IN DEPTH SCRUTINY WORKING GROUP

Scrutiny Committee - 5 July 2016

Report of Cllr Brown, on behalf of the Working Group

Status: For Consideration

Executive Summary: The Leisure In Depth Scrutiny Working Group has considered whether Sencio offers value for money and what areas of cost could be reduced. Recommendations are set out below.

Recommendations:

That Cabinet considers this report and the conclusions in paragraphs set out below.

Introduction and Background

- 1 Sevenoaks Leisure Ltd, trading as Sencio Community Leisure, was set up on 8 January 2004, when the transfer and funding agreements were signed.
- 2 Sencio was transferred the following facilities/functions under 25 year leases:
 - Sevenoaks Leisure Centre
 - White Oak Leisure Centre
 - Edenbridge Leisure Centre
 - Lullingstone Park Golf Course
 - Wilderness Sports Centre (now surrendered by SDC to KCC)
 - Sports development function
- 3 Leisure centre employees were transferred to the new leisure trust under TUPE arrangements.
- 4 Under the terms of the transfer documents, Sencio is responsible for all debts and liabilities of community leisure provision and indemnifies SDC from any liability or debt in connection with assumed contracts and employees.
- 5 In 2014, there were 990,378 uses of the leisure centres and golf course. 223 clubs and societies use the leisure facilities on a regular basis.

Scope of Leisure In Depth Scrutiny Committee

- 6 We agreed that the core questions that the working group should address were:
 - Does Sencio offer value for money?

- What areas of cost could be reduced?

Summary of Work Carried Out

7 The working group has met six times and carried out the works listed below.

8 We reviewed the following documents:

- Sencio Board reports
- Sencio financial strategy
- Sencio head office costs
- Sencio income/expenditure
- Sencio benchmarking
- Sencio usage charts

9 We interviewed the following Sencio personnel:

- Chief Executive
- Chairman of Sencio's Board
- Sales Manager

10 We interviewed three other leisure providers.

Sencio Lease Arrangements

11 When SDC decided to set up an independent leisure trust in 2003, it decided to grant Sencio 25 year leases of various buildings and land. The leases will be determined in 2029.

12 The tenancies are deemed to be business tenancies and the leases were all contracted out of the Landlord and Tenant Act 1954 so that Sencio has no statutory tenancy right beyond the date the leases expire.

13 Full details of the Lease Arrangements are contained in Confidential Appendix D.

Sevenoaks District Council Support for Sencio

Management Fee

14 An annual contract letter sets out the management fee for any one year. The contract letter sets out contract conditions and performance standards for the following year.

- 15 When Sencio was set up in 2004, the first management fee funding payment was £486,000, covering the period 1 January 2004 to 31 March 2005. From 1 April 2005, funding payments have covered the period April to March.
- 16 Since 2005, the management grant has reduced and the management fee for 2016/17 is £80,950. A spreadsheet showing the reduction in Sencio's management fee from 2004 to 2016 is set out at Appendix A.
- 17 The management fee covers all three leisure centres, Lullingstone Park Golf Course and the sports development function. Sencio currently does not have a Sports Development Officer in place but uses a sports development approach in the provision of classes and activities.

Advantage Programme

- 18 The Council pays Sencio an annual contribution of £20,000 towards "Advantage", which is a concessionary scheme that offers reduced rates for leisure activities. There is a small charge of £10 per annum to hold an Advantage card and the scheme is open to Sevenoaks District residents only.

Asset Maintenance

- 19 Sevenoaks District Council owns the three leisure centres in the Sevenoaks District and Lullingstone Park Golf Course. The Council is responsible for the buildings and Sencio for providing leisure services. The Council is responsible for building repairs and replacing failed plant, whilst Sencio is responsible for the ongoing service and maintenance of plant and equipment. The Council's total budget for maintenance of all three leisure centres and Lullingstone Park Golf Course in 2015/16 was £167,145.

Summary of Council's 2015 Contributions and Costs in relation to Leisure Services

Sencio Management Fee	£80,950
Sencio Advantage Fee	£20,000
SDC Asset Maintenance Fee	£167,145
SDC Building Insurance	£88,027
Total	£356,122 per annum

Sencio Financials

- 20 Sencio's financial year runs from 1 January to 31 December.
- 21 Results for the last five years are as follows: -
- 2015: An overall loss was made (detailed figures not provided)

- 2014: Operating Income of £4,812,308. Costs of £4,684,285. Overall profit of £128,023. The management fee however resulted in net profit overall of £ 223,296
 - 2013: Operating Income of £4,546,728. Costs of £4,613,445. Overall loss of £76,717. The management fee however resulted in net overall profit of £18,556.
- 22 Sencio also made losses in 2012 (detailed figures not provided) and 2011 (a loss of £6178. For 2011, the management fee however resulted in net overall profit of £ 189,095.
- 23 Save for 2014, there appeared to the sub committee to be a pattern over the last five years of operating at a loss, with management fees being used to make up any shortfalls.
- 24 The sub committee noted that between 2005 and 2014 £1,576,677.84 (non inflation adjusted) has been expended on asset management.
- 25 Sencio is constituted as an Industrial and Provident Society under the Industrial & Provident Society Act 1965 to 1978, which means that any profit Sencio makes is reinvested in leisure services.
- 26 Sencio has a three year financial strategy in place to drive the business and help improve income. Sencio's strategy to increase income includes:
- Increasing income through fitness (gyms), including health and fitness courses;
 - Identify investment potentials;
 - Maintain visitor numbers;
 - Upgrade IT systems and the use of social media;
 - Increase the fitness offer at Sevenoaks Leisure Centre to take advantage of latent demand.
- 27 Examples of cost reduction measures taken recently include:
- Sencio is reviewing utilities contracts to see if costs can be reduced;
 - LED lighting in leisure centres will make a saving;
 - Combined heat and power units in leisure centres are making a saving;
 - Savings are being made on procurement and cleaning costs without a drop in standards;
 - Staff count at Sencio's Head Office has been reduced. Sencio's Head Office costs have reduced from £877K in 2012 to £807K in 2014.

28 Sencio has identified additional pressures on staff costs:

- The living wage;
- Although the average headcount has gone down, automatic enrolment in pensions has increased staff costs.

Recent Investments and Improvements made by Sencio

29 Sencio has reported to us the following investments to improve the leisure offer in the District:

- An investment of £57K in 12 power-assisted exercise machines at White Oak Leisure, designed for older people, those recovering from operations and those who are not fit enough to do other sorts of exercise. Sencio has converted the old bar area at White Oak to accommodate the machines. Latent demand for these machines is 2,900 and only a 10% take up will bring profit of £20K per annum.
- A new updated Front of House system has been installed. This system will help with increasing online bookings.
- Automatic renewal letters will go out by email to save postage costs.
- Linking Sencio's website with external partners is bringing Sencio commission.
- A finance and payroll system upgrade has saved Sencio £10K.
- Sencio has diversified the offer to customers. Recent innovations include "Smash Up" badminton for young people and archery tasters for young people.

Sencio Sales & Marketing

30 In order to improve the sale of memberships across Sencio facilities, Sencio recruited a new Sales Manager from the private sector. He joined Sencio in 2013 and has undertaken the following work:

- Mystery shopping at all three leisure centres. He found friendly, helpful staff but no real processes in place to sell memberships.
- Staff at all leisure centres, particularly Front of House staff, were given sales training and the confidence to be able to sell memberships and give advice to sessional customers to offer memberships that will offer better value;
- Sales campaigns and promotions are planned with Sencio's Marketing Manager, keeping messages simple and varying the types of offer.

- Operation Boomerang: When customers request cancelling memberships, sales staff are empowered to be able to make further special offers to persuade customers to stay on board.
- Sencio customers maintain memberships for much longer (over 25 months) than the industry norm (16.7 months).
- 7 day trial passes are offered to friends of new members, as this helps members settle in and helps drive new member enquiries.
- Sencio charges the same membership prices and rates at all three leisure centres.

31 The main reasons for customers cancelling memberships are moving away, ill health and time pressures.

Benchmarking Sencio

32 Officers have undertaken an exercise to benchmark Sencio against other leisure providers for other Kent local authorities. There are a variety of payment arrangements adopted by other Councils:

Those Councils who pay subsidies: -

- Council A gives a total of £ 588K to a leisure trust for the management of five leisure centres. In addition, Council A pays £50K to the same leisure trust for management of a theatre until September 2016. The leisure trust pays utility costs at each facility for the 5 leisure facilities which are on full repairing leases.
- Council B pays a total of £116,300 in management fee to a leisure trust to management two facilities. The Council is responsible for all repairs, renewals and insurance and has a capital budget of £384K in place over five years.

Those Councils who do not pay subsidies: -

- Council C's two leisure facilities are run by a leisure trust. The Council pays **no subsidy** to the leisure trust, but has made capital investments in the buildings, which are leased on a part repair lease. According to the contract, the Council will receive any financial surplus, but the Council is liable for insurance, utility price increases, gym equipment lease costs etc.
- Council D has awarded contract to run a new build leisure centre to a large leisure operator. **The company pays the Council** in order to run the contract and has full commercial and building risk. The Council recharges insurance costs to the operator.

33 A spreadsheet containing details of Council leisure operators are set out in confidential appendix B.

- 34 It should be noted that some Councils pay no subsidy and in fact are paid by the NSFP (no subsidy fee paying) Operator to run its facilities. As noted above, were SDC to engage such an operator that would result in a saving of at least £356,122 per annum.
- 35 In its review of the other facilities and leisure run by such NSFP operators the subcommittee noted there appeared to be no reduction in the quality of the service provider and indeed the commitment to investment into the facilities managed was significant.

One local Council, for example, received an annual payment from their operator (in the amount of £150,000) and the arrangement was 'working very well'. This included a £1.7 million redevelopment of their facilities, paid for over the course of the contract by the Operator. Their full response is contained in confidential Appendix F and meeting notes dated 10th December 2015.

Other Leisure Providers

- 36 Members met three leisure providers to provide a context against which to evaluate Sencio. Notes of meeting with providers are set out in confidential Appendix E.

Provider A: Subsidy Payment

- 37 Provider A was set up in 2004 on a five year lease to manage a contract with another private provider to run leisure provision in two locations for the local authority.
- 38 In 2009, the contract was not going well and was renegotiated to run to 2019 with Provider A becoming an IPS with charitable status.
- 39 Day to day running of leisure centres is undertaken by Provider A, but background work (eg human resources) is carried out by the private provider.
- 40 Facilities managed are a leisure centre with a 25m pool, gym and 6 court sports hall and a second leisure centre with a 25m pool, gym, workout studio, 4 court sports hall and outdoor paddling pool. A third leisure centre in the Borough is subject to a separate contract with another provider.
- 41 The local authority makes the following payments on an annual basis to Provider A:
- £ 420,000 Annual management fee
 - £ 80,000 Asset maintenance costs
 - £ 110,000 Car park refunds

- 42 Once Provider A breaks even in any given year, there is a profit share with the local authority. The local authority will take 75% of profits made and Provider A 25%.
- 43 There is aspiration to rebuild or refurbish the existing leisure centres as part of a strategic vision for the local area and regeneration of the town centre.
- 44 Provider A charges different membership prices for the two leisure centres as the towns have very different demographics. One of the towns is one of the most deprived areas in the county. Basic memberships are £19.95 and £16.95.
- 45 It will be noted that this Provider operated in an area of the Country with significant financial deprivation, which was reflected in the membership price.

Provider B: No Subsidy Fee Paying

- 46 Provider B, a registered charity and a company limited by guarantee, was set up in 2000 to promote healthy lifestyles and encourage participation in sport and physical activity.
- 47 Provider B has enjoyed continued growth and development with annual surpluses each year. It is driven by increasing participation, increasing customer satisfaction, investment and developing resources. Provider B aims to grow sustainably rather than aggressively.
- 48 Provider B has 23 clients, including London boroughs, District/Borough Councils and one national governing body. The facilities it runs include 83 swimming pools, 31 sports halls and 64 health/fitness centres. They aim to offer private facility standards and mid range prices.
- 49 Provider B has a range of contractual models with local authorities, including 19 traditional leisure management contracts with 3 to 20 year leases and four long term leases of 30 to 50 years. Some contracts entail a subsidy from the partner authority whilst others make payments to partner councils. Contracts are agreed based on council need and the condition of leisure facilities. Each contract agreed will be different.
- 50 For Councils that are paying Provider B to run facilities, Provider B makes changes that will increase income and ultimately eradicate subsidies.
- 51 Case Study - District Council 1:
- District Council 1 was paying their leisure trust £ 800K to manage 5 facilities.
 - Provider B took over a portfolio of 5 facilities in 2012, on a 10 year contract.
 - Provider B eradicated District Council 1's subsidy from day one.

- Provider B has managed £3 million investment over three sites, funded by District Council 1's prudential borrowing.
- £ 500K redevelopment of a leisure centre to create a brand new gym and studio facilities.
- £ 250K redevelopment of a second leisure centre to improve the gym and studio facilities.
- A brand new leisure centre opened in another town in the District in August 2014.
- Participation overall in the District has gone up 40%.

52 Case Study -District Council 2:

- District Council 2 was paying an annual subsidy of £850K for 5 leisure facilities. There was a £ 5 million backlog of maintenance required for these centres.
- Provider B awarded a 50 year full repairing lease for all 5 facilities in June 2015.
- Within first three years of the lease, Provider B will invest £3 million into the facilities to deliver improvements.
- £ 550K redevelopment of a leisure centre planned.
- £ 2 million development of a second leisure centre planned.
- By year 5 of the contract, District Council 2's annual subsidy will completely disappear and Provider B will pay the Council a small rental for the properties.

53 Provider B operates a proactive approach to the management of energy and environmental impact. Their environmental management system is accredited to ISO 14001 and they have retained their Carbon Gold Saver Standard. They have extended the scope of their regular internal environmental audits and are undertaking a range of initiatives to deliver improved efficiencies in utility costs:

- Installation of variable speed drives to regulate the speed of fans and pumps. Currently installed in 11 centres and have delivered a cumulative reduction in electricity consumption of 12%.
- Installed a biomass boiler at a leisure centre, in partnership with the City Council. The boiler will deliver approximately a third of the total heat and power demand of the building.

54 Provider B's membership prices are tailored to the areas in which a facility operates; it does not impose corporate rates. Membership prices are based

on need and affordability, so can vary from area to area and Council to Council.

Provider C: No Subsidy Fee Paying

- 55 Provider C was established in 1995. It has 26 local authorities and clients and looks after 82 leisure centres.
- 56 Provider C operates facilities to Quest principles (Leisure benchmarking and best practice arrangements). Provider C aims to offer clean, quality facilities, enhance community links, increase participation and strengthen sports development. As part of Provider C's commitment to sustainability, they obtain ISO:14001 environmental management accreditation certification for each centre they operate.
- 57 Provider C has a strong community focus and runs a variety of community programmes out of its leisure centres. 35 leisure centres offer GP referral schemes.
- 58 Provider C offers a variety of contract models for Councils and can run leisure facilities at a zero subsidy position or make payments back to partner councils.
- 59 Provider C manages Design, Build, Operate and Maintain (DBOM) contracts for clients. A subsidiary company to Provider C is a multi-disciplinary project management company offering bespoke services for the sports and leisure sectors. They have worked with local authorities from the earliest leisure facility design stage through to ongoing operation through DBOM, Private Finance Initiative (PFI) and Public-Private Partnership (PPP) contracts: -
- Provider C managed the construction of a new state-of-the-art leisure centre a London Borough, as part of the Council's £33 Million leisure investment programme.
 - A leisure centre in the north of England is a landmark facility procured under PFI to replace an old facility that was demolished in the 1990s. A strict budget was in place for this project and regular design reviews were conducted to monitor the budget versus the specification.
- 60 Case Study -District Council 1:
- Provider C took on a 25 year contract for three leisure facilities under a DBOM contract structure.
 - A leisure centre was built to replace an old centre which had been subject to flooding. The new centre was built alongside the old one to ensure there was no break in service for customers. An innovative design and construction solution was needed to obviate site instability and contamination issues.

- Two further leisure centres underwent significant refurbishment work to modernise and extend the facilities.

61 Provider C's size means that they can keep costs down with purchasing in bulk across multiple facilities.

Leisure Facility Membership Comparisons

62 A comparison of leisure facility membership prices is set out in Appendix C. Membership prices for a basic single peak membership range from £29.95 through to £85.00. Some operators offer off peak discounts and lower prices for single activity memberships (eg swimming only).

63 Membership prices are generally for a minimum time period (eg 6 months or a year) and operators offer a slightly more expensive rolling option that does not have a minimum time period. Some operators also charge a one-off admin fee for joining.

64 Across the nine operators listed, the average monthly membership fee is £47.76. Sencio's basic membership fee is £38.50 per month.

Conclusions

65 There are a number of positive aspects to the provision of leisure services by Sencio:

- Sencio's management fee has reduced by 84% between 2004 - 2015, but usage has risen by 4.3%. A table showing the reduction in management fee since 2004 is set out at Appendix A.
- Sencio has made some investments to improve the leisure offer in the District and maximise their income.
- Sencio's Sales Manager has made significant changes to drive up memberships and maximise income.
- Sencio has undertaken some measures to reduce head office and other costs.

66 However, to answer the principal question set out above, on balance and taking into the efforts by Sencio to increase its income and reduce its costs, this sub committee does **not** consider that Sencio offers good value for money.

67 In particular the sub committee notes: -

- The losses incurred by Sencio in four out of the last five years (thus failing to ensure that income significantly outweighed operating costs);

- The lack of buying power in relation to utilities and difficulties in implementing other economies of scale due to its small operational size;
- Above all that SDC continues to pay large management and asset maintenance fees while other Councils in Kent enjoyed arrangements which paid them a premium, while still enjoying good levels of service, including the provision of leisure facilities for disadvantaged groups at affordable pricing levels, and renovation of existing facilities.

68 In the short term, the sub committee urges cabinet to review the payment of such fees, including the payment of a management fee.

69 Finally, the Sports Development function was transferred to Sencio in 2004 along with the leisure centres. Delivery of this function includes liaison with community sports groups and delivery of disability and inclusive sports projects. Sencio is delivering part of this function but does not work on an outreach basis to local communities. The Council's Health & Housing Team has been successful in the outreach role in some parts of the District. It is recommended that the Council looks at whether it will be more effective for the Council to undertake this part of the sports development function and retain part of the management fee paid to Sencio.

Appendices

Appendix A - Leisure management fee comparison

Appendix B (Confidential) - Kent local authorities' leisure facilities operational arrangements

Appendix C - Membership Fee comparison

Appendix D (Confidential) - Lease Break Clauses

Appendix E (Confidential) - Notes of meetings with providers

Appendix F (Confidential) - Email from Council re contractual arrangements with provider

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