

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 25 November 2015
Report for: Information
Report of: Programme Assurance Lead/Director – Trafford Leisure

Report Title

Annual Governance Statement 2014/15 – update on significant governance issue : Leisure Services

Summary

This report includes an extract from the 2014/15 Annual Governance Statement outlining one of the significant governance issues identified for further development through 2014/15 i.e. Leisure Services. It provides an update on work undertaken to date and further work planned in respect of this issue.

Recommendation

The Accounts and Audit Committee is asked to note the report for information.

Contact person for access to background papers and further information:

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Background Papers:

2014/15 Annual Governance Statement

Annual Governance 2014/15 Statement – Significant Governance Issue : Leisure Services

1. Introduction

Detailed below is an extract from the 2014/15 Annual Governance Statement in relation to one of the significant governance issues listed in the Statement i.e. Leisure Services. This is followed by an update on actual progress made to date in respect of this issue.

2. Annual Governance Statement 2014/15 Extract

The following detail (in italics) was included in sections 5.3 and 5.4 of Trafford Council's 2014/15 Annual Governance Statement:

The Council is committed to achieving its objectives through good governance and continuous improvement. Going forward, the Council will continue to transform service delivery arrangements, to ensure the Council effectively delivers its objectives and manages its resources to meet the ongoing financial challenges being faced.

Detailed below are significant governance issues and a summary of the actions planned to address these in 2015/16

2014/15 Issues and Action Planned 2015/16

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7. Leisure Services

The contract with Trafford Community Leisure Trust will come to an end on 30th September 2015. The existing Leisure Trust Board has informed the Council that it no longer wishes to operate leisure services in the Borough under contract to the Council beyond this date.

In order to put in place an alternative provider the Council would need to go through a procurement process. At best this would take 9 months through a closed procurement process. However, due to potential opportunities for the development of leisure facilities and leveraging models of investment and partnerships, the best procurement route is through an 'Open Dialogue' process. Whilst this is the best route likely to achieve the best outcomes for Trafford residents, it is a process that takes longer than traditional procurement processes, possibly up to 2 years. Also, it is not financially viable to bring these services back in to the Council, mainly because the Council will not be able to access the VAT exemption and the business rates relief.

For these reasons, the only option is to create a new company set up to provide leisure services. This new entity will operate from 1st October as a Community Interest Company (CIC) with the existing management team and staff from the Trust transferring in to the company with the exception of the Chief Executive. The Council will initially be the only shareholder. All current arrangements in the Trust for the provision of back office services will remain in-tact ensuring minimal disruption. The CIC will remain VAT exempt and the Council will be able to grant business rate relief. The assets of the trust will transfer, for no consideration, under an 'asset lock' to be used by the new company for the benefit of the community. An interim business plan is being developed as a basis for the first year of

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operation and it is likely that the Council will need to provide working capital to fund the cash flow requirements initially. This will be provided on a commercial basis through an interest bearing loan by the Council to the Company.

The Council will then contract with the company to provide leisure services. The Council will appoint a board of directors responsible for the governance of the company. Its first task will be to approve the interim business plan. Once the initial transfer is complete work will start on the development of a vision and blueprint for leisure in the borough and determine appropriate routes to access investment to develop the physical infrastructure.

3. Updated position (November 2015)

- 3.1 Trafford Leisure CIC Ltd. was formed as planned and on time. It commenced operating leisure services in the borough on the 1st October 2015. The operating procedures, systems and processes all transferred seamlessly with no disruption to customers. The staff transferred under TUPE arrangements and the company is in the process of achieving 'Admitted Body Status' to the GM pension fund for those staff previously in the same pension fund with the Trust. As part of the due diligence process, the existing supply contracts, leases and other transferred commitments have been reviewed by the Council's Director of Legal Services and Director of Procurement.
- 3.2 The Council has retained ownership of the building assets whilst the equipment and other operational assets transferred from the Leisure Trust to the CIC under a formal Asset Transfer Agreement at nil cost but subject to the community asset lock.
- 3.3 A formal operating agreement will be in place between the Council and the CIC which sets out the requirements of the Council. The existing management fee that has been paid to the Trust historically will cease on 31st March 2016 and the CIC will have to operate within the income it can generate from service users.
- 3.4 Trafford Leisure CIC Ltd. is wholly owned by the Council and the Council discharges this responsibility through the Board of Directors that has been appointed to run the company. The Chief Operating Officer reports to the Board and is held accountable for the full delivery of the business plan and the P&L account.
- 3.5 The Board is made up of eight members including the Chairman. There are two Council Officers and One Elected Member sitting on the Board with the remainder made up of highly experienced people with complementary skills and backgrounds, some of whom have considerable sector specific expertise and experience. There is, in addition one Council Elected Member with proxy voting rights in the event that the Elected Member sitting on the board is unable to vote.
- 3.6 An interim business plan has been produced by the CIC and adopted by its Board, to cover the first twelve months of operation and this has been

reviewed by Council Officers and the Director of Finance as part of the 'due diligence' process. The business plan and cash flow projections show that the company can operate viably for this period and is unlikely to require the cash flow loan it initially envisaged. There is an agreed process underway to apportion and transfer payments collected by the Trust in advance that relate to the period beyond 1st October 2015. This provides some contribution to the cash flow. As a new company it does not hold any cash reserves so will have to manage cash flow very carefully.

- 3.7 The Company, with the agreement of the Council's Director of Finance has appointed Mitchell Charlesworth as its Auditors. They are familiar with the company as the previous auditors and this will provide continuity of understanding that spans a considerable period of time.
- 3.8 The leisure centres present significant challenges to maintain them and much of the estate requires significant investment to modernise and ensure they are fit for purpose long in to the future. The current business plan provides for some maintenance costs but the majority of the responsibilities sit with the Council as the owner of the assets. The Council and the company are working together on a short term asset management plan to cover the interim period. Any serious building failures that resulted in closure and loss of income to the CIC may mean that the Council would still need to provide a cash flow loan to the company but would be provided on a commercial basis.
- 3.8 In the longer term, a strategy is under development which will seek to identify demand for leisure facilities and how that demand is being met currently and into the future. This will form the basis for the provision of sport and leisure facilities in the borough long in to the future and how and where the Council's provision will fit. Based on this, an investment strategy will be developed working alongside the CIC and other potential investors to modernise and future proof the assets going forward so that residents and customers will benefit from a rich and diverse offer through high class facilities delivered through a range of providers including the CIC and other commercial providers, schools, charities, clubs and associations.
- 3.9 For the CIC and its workforce this will mean the potential for a sustainable business into the future that is able to operate free from local authority subsidy and could provide, if successful, new jobs and apprenticeships.
- 3.10 The Council has put in place a small project resource to support the development and the implementation of the sports and leisure strategy reporting into the Council's governance structure through the Transformation Programme.
- 3.11 It is anticipated that the strategy will be developed over the next three months and this will lead to more detailed planning, a full evaluation of investment routes and a long term asset management plan. All this will take full account of each locality within the borough and the differing demographics so that there is a cohesive offer in the future. It will be developed with partners so that services could be integrated, for example with health and social care services.