

**Report To:** EXECUTIVE CABINET

**Date:** 23 January 2019

**Executive Member/Reporting Officer:** Councillor Brenda Warrington, Executive Leader  
Debbie Watson, Interim Assistant Director of Population Health  
Tom Wilkinson, Assistant Director of Finance

**Subject:** TAMESIDE SPORT AND LEISURE REVIEW

**Report Summary:** The report updates Executive Board on the recently commissioned Sport and Leisure Options Appraisal, including the current performance of the provider, Active Tameside. The report shows the substantial progress Active Tameside have made to achieve financial balance in 2018/19. Delays to the Hyde Pool extension and Wellness Centre, Denton schemes have meant that the original financial assumptions underpinning the management fee proposed in March 2016 are nonviable. To ensure stability for the Borough's leisure offer moving ahead, in light of these scheme delays, it is proposed to re-profile the current savings plan agreed in March 2016, which will enable the timely repayment of the outstanding prudential borrowing that is owed by Active Tameside, alongside a sustainable reduction in the management fee paid by the Council.

**Recommendations:** Executive Board are recommended to:

1. Note the findings of the options appraisal and progress made by Active Tameside to become more financially stable over the last six months
2. Approve the supplementary management fee levels payable in 2018/19 due to capital delays, and re-profiled levels of management fee for 2019/20 and 2020/21 per **Appendix 1**
3. Acknowledge that the existing level of prudential borrowing will be wholly repaid by Active Tameside by 31 March 2025 (2024/25). Active Tameside have requested up to £ 1 million additional borrowing to finance the equipment for the commercial venture at Active Denton. The repayment terms for this additional borrowing will need to be agreed and are not included in **Appendix 1**. It is proposed however that the repayment terms commence from 2021/22 in line with the next management fee schedule for the period 2021/22 to 2023/24 (the end of the existing lease term). A further report will be presented to Members during 2020/21 to consider the value of management fee payable during the remaining lease term.
4. Note the actions that will be carried out in section 4.3.

**Links to Community Strategy:** Healthy Tameside

**Policy Implications:** Local authorities have a central role to play when it comes to the provision of community sport and recreation facilities and are responsible for the health outcomes for their populations –

specified in the as specified in the Public Health Outcomes Framework.

As part of the health reforms brought in by the Health and Social Care Act 2012, local authorities have a duty to take such steps as they consider appropriate for improving the health of the people in their area. The steps listed in legislation include:

- Providing information and advice
- Providing services or facilities designed to promote healthy living
- Providing services or facilities for the prevention, diagnosis or treatment of illness
- Providing assistance to help individuals to minimise any risks to health arising from their accommodation or environment
- Making any other services or facilities available

**Financial Implications:**  
**(Authorised by the Section 151 Officer)**

Section 3 of the report provides supporting details of the rationale for the re-profile of the management fees payable to Active Tameside in 2018/19, 2019/20, 2020/21. The related values are provided in **Appendix 1**.

Members should acknowledge that the existing level of prudential borrowing due from Active Tameside will be wholly repaid by 31 March 2025 (2024/25). Active Tameside have requested up to £ 1 million additional borrowing to finance the fit out of the commercial venture at Active Denton. The repayment terms for this additional borrowing will need to be agreed and are not included in **Appendix 1**. It is proposed however that the repayment terms commence from 2021/22 in line with the next management fee schedule for the period 2021/22 to 2023/24 (the end of the existing lease term).

A further report will be presented to Members during 2020/21 to consider the value of management fee payable during the remaining term of the lease

**Legal Implications:**  
**(Authorised by the Borough Solicitor)**

Any expenditure on leisure facilities is discretionary and consequently as we continue to have budget challenges and austerity (but in any event) elected members need to be clear that any funding must serve to meet our priorities, including to reduce demand on more expensive and costly medical interventions. A process should be developed which seeks to measure these outcomes and demonstrate value for money in relation to spend on leisure facilities.

Members should ensure that the Council has a sustainable leisure strategy fulfilling public sector values, including our legal fiduciary duty to the public purse, whilst contributing to demonstrable social and health benefits, and recognise that this report contributes towards informing that strategy going forward.

It would be prudent to put this strategy in place in the next 12 months in preparation for a procurement exercise should

that be necessary to undertake and which should be carried out well in advance of the expiry of the leases with Active Tameside in 2024. Guidance issued by Sport England should be taken into account at all times to demonstrate objectivity, together with advice from independent specialists.

**Risk Management:**

Active Tameside have risk management and business continuity plans in place. Any additional risks identified as a result of the review will be noted and sets taken to mitigate these.

**Access to Information:**

For background papers relating to this report can be inspected by contacting Debbie Watson, Interim Assistant Director of Population Health on 0161 342 3358, or at [debbie.watson@tameside.gov.uk](mailto:debbie.watson@tameside.gov.uk)

## 1. BACKGROUND

- 1.1 Tameside Council currently commissions Active Tameside, a registered charity, to operate 9 sport and leisure facilities and a community physical activity and wellbeing programme. An annual management fee is paid to Active Tameside to deliver public benefit and health outcomes, in keeping with its charitable objectives, with all surplus revenues reinvested into services and facilities. Active Tameside delivers a wide range of leisure facility and community-based services that generate participation in physical activity and sport to improve health and wellbeing, predominantly in the Tameside area but also with partners across Greater Manchester.
- 1.2 Active Tameside is the operating name of Tameside Sports Trust, an independent company established in 1999 with a Board of 11 voluntary Directors, with two nominated by the Council. Active Tameside employs circa 300 people and has a turnover which has grown to over £10 million. Income is generated from admissions income, subscriptions, contracted work, grants and an annual management fee.
- 1.3 The current contract and funding agreement runs until 31 March 2024 and is co terminus with the lease to operate Tameside Council's leisure assets which has just over 6 years to run.
- 1.4 A report to Executive Cabinet on 24 March 2016 titled – “Active Tameside – A Blueprint for Sustainability”, set out proposals to ensure the provision of high quality sports and leisure facilities in Tameside, to create a platform upon which to increase physical activity, and to develop a sustainable funding model for Active Tameside. The report detailed a reduction to the planned annual management fee from £1.7 million in 2016/17 to £0.1 million by 2025/26. The report explained that this reduction was deliverable alongside significant capital investment across the leisure estate of £20.4 million. It was envisaged that the capital investment would lead to a realisation of additional revenue for Active Tameside together with savings from the closure of provision on some of the existing sites. In addition Active Tameside was expected to attract further inward investment. The outcome of these savings and additional revenue funding streams would enable the Council to reduce the management fee annually.
- 1.5 Although good progress has been made towards achieving some of the expected outcomes set out in the report, Active Tameside continues to report a difficult financial position due to current and historic lack of reserves and limited working capital. The Council continues to support Active Tameside's cash flow position by delaying approved/planned management fee reductions and by front loading the profile of the management fee payments in year. The Council has subsequently approved supplementary management fee sums payable in 2017/18 (£ 0.3 million), 2018/19 (£ 0.3 million) and 2019/20 (£ 0.2 million). It should also be noted that Active Tameside has repayable loan liabilities with the Council of £4.6 million (including interest). This liability is scheduled to be wholly repaid by 31 March 2025.
- 1.6 A report to Executive Board on 11 July 2018 outlined the Council's vision for sport and leisure provision and the drive to improve health and wellbeing outcomes for all residents in Tameside. The current and immediate challenges and risks faced by Active Tameside, were described. Active Tameside had reported to the Council imminent issues with cash flow, which they claim due to the current and historic lack of reserves and working capital and the pressure of repayments on borrowing they have taken from the Council to support capital investment. The Council has sought to support Active Tameside with the payment of management fee 'up front' but there was at that time, a risk of them being unable to meet their financial obligations. The Council were therefore working with Active Tameside to ensure business continuity plans cover actions required.

- 1.7 The continued issues around the sustainability of Active Tameside have been the catalyst for an options appraisal undertaken by the Council with the support of Max Associates, a specialist Leisure Management Consultant.
- 1.8 Due to the need for expediency a Waiver to appoint Max Associates was approved on 1 August 2018. The draft report discussed in this report is based on a review, carried out over the last 4-5 months, to investigate, analyse and advise on the options open to the Council in relation to the sustainable management and operation of sport and leisure in Tameside going forward.
- 1.9 Since the last report to Executive Board on 11 July 2018 there has been significant improvement in the financial status of Active Tameside. The organisation has put in place some urgent measures to ensure they improve their financial position and have willingly worked with Council Officers using an 'open book' accounting approach to allow the Council to better understand the current situation.

## **2. OUTCOME OF OPTIONS APPRAISAL / CURRENT ACTIVE TAMESIDE PERFORMANCE**

- 2.1 The key objective of the appraisal was to assess current provider performance, identify strengths, weakness and areas for improvement and evaluate whether an alternative delivery model is required to make the leisure services financially sustainable.
- 2.2 Due to the circumstances at that time the aim was to urgently identify the best solution to enable an improvement in the sustainability of the contract in the short, medium and long term.
- 2.3 The approach to delivering the options appraisal was to:
  - Visit the sites and review the background information for the services and facilities;
  - Summarise the local context of population profiles, sports participation, health profiles and a review of neighbouring boroughs approach to leisure and cultural services;
  - To provide an overview of national trends with leisure providers, and the national strategic context;
  - Undertake a review of the Council's current strategic documents in relation to the services;
  - Analyse and benchmark the current service performance, looking at cost of service, staffing, service delivery levels and support services;
  - Provide an overview of the management options;
  - Engage with Council officers and members to agree criteria and scoring requirements for the evaluation model of the management options;
  - Undertake an assessment of each management option against set financial and service delivery criteria;
  - Develop an implementation plan and recommendations for the way forward and next steps.
- 2.4 Introduced for the year 2016/17, a new agreement had been put in place for an outcome based agreement with an overarching set of measures tied to the improvement of population wide health through the provision of sports and leisure services via the local leisure estate. Key elements of the outcomes required relate to:
  - Improvements in the levels of activity amongst the Tameside population;
  - Impact on the activity levels and health of the most deprived Tameside communities;
  - Impact relating to early years, long term conditions and older adults.

- 2.5 Chris Rushton became Chief Executive of Active Tameside in May 2018 following the departure of Mark Tweedie to Active Northumberland. Notwithstanding the consultancy exercise (by Max Associates), the delivery of the 2018/19 budget was his primary consideration.
- 2.6 From a difficult financial position, for 2018/19, the approved budget is now predicted to generate a bottom line surplus of circa £120,000 – the difference between total revenue (including the TMBC Management Fee) and total expenditure.
- 2.7 The performance of three facilities in particular (iTrain/Total Adrenaline/Sky High Adventure) and the prudential borrowing repayments associated with them are at the heart of Active Tameside's ongoing budgetary challenge. In combination, the difference between the initial business plan profitability projections and the actual performance of these facilities was £425K in 2017/18. However, in 2016, the business plan projections were aligned to the TMBC management fee schedule which reduces in line with both these projections and a number of others including those related to the new Wellness Centre, Denton and the Hyde Leisure Pool extension.
- 2.8 As a consequence, the 'balanced budget' for 2018/19 seemed to be unachievable as the 'investment hole' could no longer be masked by other efficiencies and interventions. The absence of any cash reserves meant that unless the management fee in its entirety was paid 'up front' ie within Q1 fundamentals such as monthly salary payments were jeopardised.
- 2.9 In order to protect, and ultimately enhance, the sector leading outcomes validated by UK Active (Outstanding Organisation of the Year), a twin track approach has been adopted by the organisation:
- Focusing on three key revenue streams in the form of Health & Fitness, Swimming Lessons and Gymnastics;
  - Promotion of the most valuable memberships in the form of direct debit/paid in full options;
  - Maximising conversion of the additional revenue to 'profit' by ensuring variable costs are minimised.
  - Reviewing central costs with a view to demonstrable added value to meet benchmarked industry standards.
- 2.10 Interventions put in place immediately include:
- A moratorium on non-essential recruitment resulting in a saving equating to some 100 hours per week (various roles) at the time of writing;
  - The dissolution of the Organisational Development 'team' resulting in a saving of 2 FTE posts from Q3;
  - A 50% reduction in Group Exercise classes by end Q3 in line with industry metrics/seasonality;
  - The 're-design' of commercial architecture with particular regard to pricing, sales commission and promotion;
  - The Sept/Oct 'big bang' (the first test of the new commercial Health & Fitness regime);
  - The recruitment of a part-time Finance Director despite the absence of budgetary provision on the basis of perceived business criticality;
- 2.11 The accounts to Period 6 are currently being finalised after which the year-end outturn will be revised. However, at Period 4, overall trading income (fees and charges) was up circa £9K against budget despite disappointing attractions revenues with the overall operating surplus essentially on plan.
- 2.12 Going forward, the indicators below suggest that the longer term commercial strategy is gaining traction:

- Sept/Oct analysis (Health & Fitness - uplift – 44%  
Swimming Lessons/Gymnastics Direct Debit growth:  
Swimming Lesson Direct Debit collection October 17 - £29,800  
Swimming Lesson Direct Debit collection October 18 - £58,400 (95% uplift)  
  
Gymnastics Direct Debit collection October 17 - £11,200  
Gymnastics Direct Debit collection October 18 - £19,000 (70% uplift)
- Overall Direct Debit Growth  
During the course of this financial year (April – October), the overall monthly direct debit collection has grown as below:  
April - £194,200  
October - £229,500 (18% uplift)

2.13 These numbers bode well for longer term growth in member numbers (capacity notwithstanding), associated revenues/conversion and diminished administrative burden/enhanced customer experience.

2.14 Going into Q4 of 2018/19, Active Tameside have committed to:

- Redouble efforts around the three key revenue streams and conversion to 'profit'. The learnings from the Sept/Oct Health & Fitness campaign will underpin the Jan/Feb campaign which will lay the foundations for Direct Debit revenue for the calendar year 2019.
- Seek to make further efficiency savings in terms of central support payroll. The embryonic collaboration with Link4Life (Rochdale) in particular will be progressed with a view to both the sharing of resource and best practice.
- The closure of access to the Local Government Pension Scheme for all new employees will suppress payroll growth during the remainder of the current agreement with TMBC.
- Protect sector leading outcomes by ensuring that both commissioned and non-commissioned services under the Live Well banner are operating optimally with regard to productivity/sustainability.

2.15 As well as the traditional leisure management requirements and day to day operation of the sites Active Tameside is delivering services beyond the physical facilities to support the delivery of better health and social outcomes, including services targeting the inactive and those with long term health conditions, services for adults with disabilities and people in need of day care and services to schools and special schools which engage over 7,000 children per week. Some recent estimates of cost avoidance to the Council Adult and Children's Social Care services, schools, residents and wider partners show substantial savings when compared to other health and social care providers in the following areas:

- Short breaks and overnight respite
- Complex needs respite breaks
- Individual Education Places Bespoke
- Adult social care 'Everybody Can'
- Adult social care 1:1

2.16 Active Tameside currently delivers commissioned work that totals £2 million per annum, which includes a number of branded social, development and health related initiatives, key amongst these are Live Active, Everybody Can and Active Education. 'Everybody Can' services in general offer a range of early intervention, health and well-being initiatives and incentives to encourage physical activity as a holistic approach to tackling inactivity in Tameside through the life-course of all individuals.

2.17 Noting the progress made by Active Tameside and that financial risk to the organisation is very much reduced, the independent evaluation carried out by Max Associates recommends that the Council continues with the existing operator. Max Associates report the following main reasons for this:

- Throughout the review and evaluation it has been evident that the centres are currently generally performing well and many of the benchmarks are in line with or above industry standards. A new operator for these facilities would not necessarily improve the revenue position, particularly in the short term.
- There are some sites where fitness income per station is below average and it is recommended that latent demand reports are requested by Active Tameside to understand the scope for improvement or to ascertain if the sites are meeting levels of demand due to the level of competition in the area. It is recommended that this should be undertaken before any future procurement process is considered, as Active Tameside's performance may be being limited by the local market rather than underperforming.
- Active Tameside has demonstrated nationally success and ability in delivering commissioned services relating to increasing participation in physical activity, improving health and health and social care cost avoidance. They are market leaders in this sector and therefore other operators are unlikely to match them in meeting some of the key local social objectives.
- Whilst merging with a neighbouring trust may result in some financial benefits, the strength of Active Tameside as an operator and the potential impact a merger could have on local outcomes and bespoke services suggests that they would be better working with neighbouring trusts on specific items of service delivery and operations, for example procuring marketing services jointly or utility suppliers, which would give economies of scale to both operators.
- One of the main reasons for financially underperforming is the issue of depreciation (expressed through the repayment of prudential borrowing taken by Active Tameside) and operational costs. This will remain problematic whichever management option is chosen and therefore taking into account their operational performance, it would be better value to resolve this through discussions with Active Tameside.
- Whilst the "attraction" sites are underperforming, any new contractor/operator would base projections on historic performance data and therefore are unlikely to show significant improvements unless contractors/operators propose alternative use or investment.

2.18 Given the above the key factor that would support continued improvement is the potential reduction in central costs. This is recognised by Active Tameside as an area of improvement and in the short term the Council will work with the Trust to bring costs in line with industry standards.

### **3 MANAGEMENT FEE**

3.1 It is acknowledged that Active Tameside is demonstrating an improved financial position. The current management fee proposal was agreed by Executive Cabinet on 24 March 2016.

3.2 The Executive Cabinet meeting of 30 August 2017 approved a report that explained delays to the Active Tameside infrastructure would require supplementary management fee payments which effectively re-profiled the original fee reductions, because of these delays.

3.3 There have been subsequent delays to these schemes with revised operational opening dates of October 2020 for Active Hyde and April 2020 for Active Denton.

- 3.4 Following a tendering exercise Strategic Team Group (STG) were selected to carry out the pool extension at Active Hyde. Active Hyde did have an opening date of February 2020; however on 13 December 2018 the Council received notification from STG, outlining their Board's decision not to proceed with the pool project at Hyde. The organisation also had declined two other housing projects worth in excess of £5m in turnover. Their decision made by their Board had been driven by four main issues:
- Supply chain uncertainty and price volatility
  - Competitor instability, leading to STG consolidation
  - Current unforecastable position both economically and politically due to Brexit
  - Current order book and pipeline

The contract therefore will be re-procured, but this will cause an estimated further delay of 4 to 6 months.

- 3.5 Members are requested to also note that whilst the two schemes will be operational in 2020/21, it is prudent to acknowledge that Active Tameside will require a lead in period to realise the expected levels of additional surplus revenue as estimated in the March 2016 business plan.
- 3.6 **Appendix 1** provides an analysis of the proposed re-profile of the management fee values payable for the financial years 2018/19, 2019/20 and 2020/21, which is summarised in **Table 1**. Active Tameside are amenable to agreeing a gain share arrangement if performance at Active Denton and Active Hyde exceeds the level of assumed operating surplus in 2020/21, whereby the management fee would be reduced in subsequent years.

**Table 1**

<b>Management Fee Summary (£000)</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Existing Management Fee	1,451	924	715
Proposed Management Fee	1,498	1,403	1,077
<b>Additional Management Fee Variation</b>	<b>47</b>	<b>479</b>	<b>362</b>

- 3.7 A further report will be presented to Members during 2020/21 to consider the value of management fee payable for the years 2021/22 to 2023/24 (the end of the existing lease term), in light of the performance of the newly operational sites.
- 3.8 At the end of the contract in March 2024 it is in the interests of the Council for Active Tameside to be a financially stable and viable business in order to give the Council the broadest range of future delivery options at this time.
- 3.9 The re-profiling of the management fee allows Active Tameside to remain financially sustainable for the foreseeable future. Members should also note that this will enable the existing level of prudential borrowing (£4.5m) to be wholly repaid by 31 March 2025 (2024/25). Active Tameside have requested up to £1 million additional borrowing to finance the equipment for the commercial venture at Active Denton. The repayment terms for this additional borrowing will need to be agreed and are not included in **Appendix 1**. It is proposed however that the repayment terms commence from 2021/22 in line with the next management fee schedule for the period 2021/22 to 2023/24 as explained in section 3.6.

## **4 CONCLUSION**

- 4.1 Max Associates review recommends that Active Tameside works with the Council to reach a sustainable financial position within the existing contract term which ends 31 March 2024. Once this is achieved the Council could then consider a procurement exercise, which Active Tameside can choose to participate in, to achieve the optimal management contract for the Council. Before the end of the contract, the Council should develop a procurement strategy, including a facilities options appraisal to determine the shape of leisure provision for the next generation over the next 25 years.
- 4.2 Alongside this work it is also recommended that Active Tameside undertake a review of the attraction sites to understand the context and detail behind the original projections, why they are underperforming, if there is scope to improve the financial position of these sites and identify opportunities for change.
- 4.3 Following the outcome of the review it is recommended that the following actions are carried out in 2019/20:
- A latent demand report is carried out for all sites to understand membership potential.
  - A review of the performance and original business plans for the attraction sites, to understand why they are underperforming and the options available to make them financially sustainable.
  - A facilities/estates plan is developed to determine whether there are further opportunities for investment or rationalisation.
  - Consequently a future procurement strategy is produced detailing procurement options available at the end of the current contract with Active Tameside.

## **5 RECOMMENDATIONS**

- 5.1 As stated on the report cover.

**APPENDIX 1**

**Active Tameside Management Fee**

	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>Comments</b>
<b>Existing</b>				
Management Fee - Exec Cabinet 24/03/16	1,124	715	715	
Supplementary Payment - Exec Cabinet 30/08/17	327	209	0	
<b>Total</b>	<b>1,451</b>	<b>924</b>	<b>715</b>	

Prudential Borrowing Repayment	(788)	(788)	(788)	Currently excludes any borrowing requirements for Active Denton - £ 1 million assumed in the business case for bowling facility
<b>Net Council Payment / Repayment</b>	<b>663</b>	<b>136</b>	<b>(73)</b>	

<b>Reprofiled Fee</b>				
Management Fee - Exec Cabinet 24/03/16	1,124	715	715	
Supplementary Payment - Exec Cabinet 30/08/17	327			
Active Hyde - 01/08/18 to 31/03/19	47	70	35	Estimated - New Facility Open 1 October 2020
Active Hyde - 01/10/20 to 31/03/21			18	50% assumption on surplus delivery in 20/21 - 1 October 2020 to 31 March 2021
Active Denton - Existing Site - Closure Savings		98	49	New Facility Open 1 April 2020 - 50% assumption on savings achieved in 2020/21
Active Denton - New Site - Surplus		160	80	New Facility Open 1 April 2020 - 50% assumption on surplus delivery in 2020/21
Active Denton - New Site - Commercial Venture		160	80	New Facility Open 1 April 2020 - 50% assumption on surplus delivery in 2020/21
Inward Investment		200	100	Assumption 50% realised in 2020/21
<b>Total Re-profiled Fee</b>	<b>1,498</b>	<b>1,403</b>	<b>1,077</b>	

Prudential Borrowing Repayment	(788)	(788)	(788)	Currently excludes any borrowing requirements for Active Denton - £ 1 million assumed in the business case for bowling facility
<b>Net Council Payment / Repayment</b>	<b>710</b>	<b>615</b>	<b>289</b>	
<b>Net Reduction in Fee Payable</b>		<b>(95)</b>	<b>(421)</b>	

<b>Management Fee Summary</b>			
<b>Existing Management Fee</b>	1,451	924	715
<b>Re-profiled Management Fee</b>	1,498	1,403	1,077
<b>Additional Management Fee Payable</b>	<b>47</b>	<b>479</b>	<b>362</b>