

To: City Executive Board

Date: 12th February 2014

Report of: Head of Leisure, Parks and Communities

Title of Report: REVIEW OF THE CONTRACT WITH FUSION LIFESTYLE FOR THE DEVELOPMENT, MANAGEMENT AND OPERATION OF THE CITY'S LEISURE CENTRES

Summary and Recommendations

Purpose of report: To consider an extension of the current leisure management contract

Key decision? Yes

Executive lead member: Councillor Mike Rowley

Report approved by:

Finance: Emma Burson

Legal: Lindsay Cane

Policy Framework: Leisure Facilities Review 2009
Corporate Plan 2014-2018

Recommendation(s):

- 1) That the contract for the development, management and operation of the city's leisure centres with Fusion Lifestyle be extended for a five year period to April 2024
- 2) To delegate authority to the Director of Community Services to conclude negotiations and complete the necessary contract amendments

Appendices

Appendix 1 – Comparison of Options
Appendix 2 – Risk Register

Not for publication Appendix 3 – Financial benefits
Not for publication Appendix 4 – Consultants (SLC) report on review of delivery of leisure services

Introduction

1. This report details the review of the leisure management contract and four options that are available to the Council to manage the city's leisure facilities:
 - A full market testing exercise in 2019
 - Extending the contract
 - Bringing leisure services back in-house in 2019
 - Developing a local trust to operate the centres in 2019.

Background

2. Following a period of competitive dialogue, Fusion Lifestyle (a social enterprise with charitable status) were awarded the contract to manage the city's leisure facilities in March 2009. The contract was for a ten-year term, with a provision that allows a five year extension.
3. Prior to this time, the leisure service was high cost, poor quality with low levels of usage. Fusion Lifestyle took on the management of the centres when there was a high level of risk and a lot of work needed to improve the centres.
4. This contract with a social enterprise whose sole focus and extensive expertise is operating leisure facilities has greatly improved the user experience, alongside achieving savings of around £660,000 per year. Over this period the facilities that we are keeping have been greatly improved with around £4.6 million of investment, which has in the main been funded by the contract savings.
5. The achievements to date can be summarised as:
 - Usage has increased by 40% on pre contract levels, now totalling around 1.3 million visits a year
 - The main increases in usage is in our target groups, which have increased by 118 %
 - The net subsidy per user has reduced from over £2 to 60p per user (including utilities)
 - Customer satisfaction levels of 96% (excluding those sites that are been replaced with the new pool in 2014)
 - Quest (the sport and leisure industries quality assurance scheme) has been achieved at five centres.
6. Now that these improvements have been made and the risk is lower, there is an opportunity to improve on the original contract arrangements by agreeing an extension now rather than later.

Alongside this we can also bring forward the potential saving that the Council could attain if the contract was re-tendered in 2019.

The review

7. To ensure a robust review, consultants (SLC) were commissioned to provide an external view and provide up to date market intelligence. Their report is at Appendix 4. This report is not for publication until such time as the contract extension has been concluded (assuming the recommendations of this report are accepted). The report will be published once the contract has been concluded.
8. Four gateway reviews were held from January 2013 to December 2013 between senior Council and Fusion Lifestyle officers.
9. The review focused on attaining more value from our leisure facilities, explored management options and looked to ascertain the optimal time if we were to enact the final five years of the contract. The benefits targeted were:
 - A sustainable increase in participation levels, including target groups
 - Further increases in customer satisfaction
 - Increased engagement with stakeholders in relation to the planning and delivery of services
 - Further enhancement to the facilities
 - Demonstrable positive outcomes in respect of wider strategic priorities, including public health, youth and educational attainment
 - Attain an improved revenue position.

Evaluation

10. The steer given by the Executive Board Member for Leisure on the evaluation of each option was that the Council wanted to remain focused upon overall value and the role that leisure plays in delivering wider agendas, rather than simply cost. As such the options were evaluated against a matrix that scored 50% for financial benefits and 50% for the social benefits.

Findings

11. The commercially sensitive data provided in Appendix 3 provides members with the financial details behind the comparisons.
12. The in-house option and the creation of a new local trust both scored well on the social aspects. They were though eliminated due to the significantly higher net costs (over £600,000 per year) and the increased exposure to financial risks that are currently transferred to the leisure operator.

13. Through the review a large amount of market intelligence was attained. SLC believe that if the Council were to go out to market, that based on the current levels of concessionary access provided by the Council and no significant changes to the operating environment that the Council would expect to attain offers that reduced the operating cost to nil.
14. The Fusion Lifestyle offer guarantees this saving and brings it forward. Their offer means that the operation of the leisure centres including utilities and contract costs will be nil by Council by 2017. By progressing with the extension at this midway stage of the contract, the Council are able to bank the five year saving that represents a significant revenue saving (full detail is available in Appendix 3) alongside advancing further contract improvements such as:

Staffing and Young People:

- Improved opportunities for apprenticeships
- Improved work experience opportunities
- Continued commitment to the Oxford Living Wage

Facility Improvements:

- To utilise the indoor sport S106 monies from the Barton housing development to enhance Barton Leisure Centre
 - Re-launch Hinksey Pool following the work to bring back into use the redundant water tanks
 - They are commitment to finding a way forward to further improve Ferry Leisure Centre.
15. Additional to their proposal, Fusion Lifestyle are also developing a tennis offering to help to maximise the usage of the city's tennis courts in an inclusive way. They are also working with the Council to and Oxford Spires Academy to create a new community gym at the school.
 16. A full comparison of the options is provided in Appendix 1.

Risk

17. It can be seen that there is a marginal difference between the extension and retender option. In the financial implications section we see the financial benefit of implementing the extension early.
18. There is no change to the repair and maintenance liabilities for the leisure facilities. Fusion Lifestyle are responsible for all sites with the exception of the Ice Rink and Hinksey Pool which remain with the Council. Fusion would apply a higher cost to cover what they perceive to be higher maintenance risks at these older sites. The Council is also responsible for the latent defects (defects known at the time of transfer). There are two remaining issues relating to the pool tiling and changing room floors at Ferry Leisure Centre.

19. A risk register is included as Appendix 2.

Climate change / environmental impact

20. The continued modernisation of the leisure facilities helps to reduce the carbon impact. There are no negative carbon impacts arising from the recommendations within the report.

Equalities impact

21. Inclusivity continues to underpin the delivery of the leisure. By continuing to improve the leisure centres there will be enhanced provision for all of the Council's target groups.

Financial implications

22. The extension option scored slightly higher than testing the market. This combined with the ability to gain the financial benefits earlier means that the contract extension option provides the best value solution which has been confirmed by our consultants.

23. The financial position in the report takes into account the development work at Ferry Leisure Centre completing.

Legal Implications

24. There are no legal issues as the contract has an optional five year extension clause.

Summary

25. Following the review that evaluated the benefits of extending now against other options in five years' time, it is the view of officers, supported by SLC consultants, that the terms that have been negotiated with Fusion Lifestyle is a strong offer that we should take advantage of.

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Appendix 1– Comparison of options

Criteria	Option				
	Weighting	Extend Contract	Retender Contract	In House	New Trust
FINANCIAL	%				
Ability to make revenue savings through maximising income and optimising costs over the period of the contract	20%	1	0.6	0	0.4
Ability to raise affordable capital finance	5%	0.1	0.15	0.2	0.1
Impact on residual Council cost (non-controllable support services)	7.5%	0.375	0.375	0.15	0.3
Transfer and management of risk	10%	0.4	0.4	0	0.2
Ability to secure commissioned work from third parties	7.5%	0.15	0.225	0.3	0.3
Weighted score	50%	2.025	1.75	0.65	1.3
NON FINANCIAL	%				
Ability to contribute to strategic objectives of Council	10%	0.4	0.4	0.5	0.4
Level of control by the Council	10%	0.3	0.3	0.5	0.4
Opportunity for staff development	10%	0.3	0.4	0.3	0.2
Ability to proactively engage communities through targeted outreach programmes	10%	0.3	0.4	0.4	0.3
Ability to demonstrate wider impacts on outcomes linked to health and wellbeing and social inclusion	10%	0.4	0.4	0.4	0.3
Weighted score	50%	1.7	1.9	2.1	1.6
Total	100%	3.7	3.65	2.75	2.9

These are all scored out of 5, then calculated as a percentage with the weighting then added.

Appendix 2 – Risk Register

Item	Description of Risk/ Opportunity	Assessment			Degree of Risk	Consequence (Cost, Time, Fitness for Purpose)	Strategy to Control Risk
		LO	C R	RR N			
1	Missed opportunity to improve the contract	3	2	6	High	Cost	Progress with the contract extension
2	Loose the opportunity to retender in 2019	4	1	4	Significant	Cost	A thorough review of options and negotiation of a very good deal for Oxford.
3	Performance targets are not achieved	2	2	4	Significant	Fitness for purpose	Well managed contract Defaults Breakage clauses are still in place

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Key Likelihood of occurrence			Consequence of Risk					
4	Frequent	Likely to occur frequently, many times during the period of concern (e.g. project duration, life of building)	4	Catastrophic	Major failure in meeting prime project objectives			
3	Probable	Several times in the period of concern	3	Critical	Significant failure in meeting prime project objectives			
2	Possible	Sometime in the period of concern	2	Serious	Failure to meet major project objectives			
1	Remote	Unlikely but possible in the period of concern	1	Marginal	Failure to meet lesser project objectives			
0	Improbable	So unlikely that it can be assumed that it will not occur or it cannot occur	0	Negligible	Minor effect on meeting project objectives			
RISK	Negligible	Very low	Low	Significant	High	Very High	Extreme	Prohibitive
RRN	0	1	2	3-4	6	8	9	12+