



**SOUTH
KESTEVEN
DISTRICT
COUNCIL**

Council

1 October 2020

Report of: Councillor Barry Dobson

The Deputy Leader of the Council



Formation of LeisureSK

This report follows the decision by Cabinet and the endorsement by Companies Committee to transfer the leisure service to a wholly-owned Council company on the expiry of the current leisure contract on the 2nd January 2021. Due to the urgent nature of this work, Council is requested to consider a budget envelope which will cover the initial set up costs of the company whilst details on the company structure and business plan are being finalised. This will ensure that the necessary arrangements can put in place to ensure there is a smooth transition of the leisure service to LeisureSK.

Report Author

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Corporate Priority:	Decision type:	Wards:
Agility	Budget and Policy Framework	Two or more Wards

Reviewed by:	Debbie Roberts, Corporate Project Officer	18 September 2020
Approved by:	Paul Thomas, Strategic Director for Growth	23 September 2020
Signed off by:	Councillor Barry Dobson, The Deputy Leader of the Council	24 September 2020

Recommendation (s) to the decision maker (s)

1. Notes the contents of this report and the urgent nature of the work to be undertaken.
2. Approves a budget not exceeding £500,000 be approved to support the formation of LeisureSK and that delegated authority be provided to the Strategic Director of Growth, in consultation with the Section 151 Officer, to assess and approve any necessary expenditure.

- 3. Endorses the appointment of the Deputy Leader of the Council, Cllr Barry Dobson as the sole Director of LeisureSK in order to establish the company, and agrees to receive a further report to the Council meeting scheduled for the 26th November to consider the appointment of additional Directors.**
- 4. Notes the proposal to recruit a Non-Executive Director to complement the Board of Directors, and agrees to receive a further report to consider this appointment on the successful conclusion of the recruitment process.**

1 The Background to the Report

- 1.1 The Council's leisure facilities are currently operated by Leisure in the Community Ltd (trading as 1Life) under a leisure contract arrangement. This contract is due to end on the 2nd January 2021.
- 1.2 Since March this year the Council have been assessing the impact of Covid-19 on the leisure service, both in terms of the agreed financial support package currently being provided to 1Life, and also how Covid-19 has affected the Council's plans for the future management of the leisure service.
- 1.3 As a result of this, on the 18th August 2020 Cabinet considered a report and approved the transfer of the leisure service to a wholly-owned Council company from the 3rd January 2021.
- 1.4 Cabinet further recommended that a report should be presented to Companies Committee which sets out the optimum company structure to be adopted to take account of any VAT or business rate implications. A paper is due to be presented to the meeting of Companies Committee on the 21st October 2020 in this regard and this paper will also include a proposed five-year business plan for the company.
- 1.5 As it will be necessary for the new company to be operationally ready for the transfer of the leisure service on the 3rd January 2021, there is a significant amount of work to be undertaken in a very short timescale in order to facilitate a smooth transition to the new arrangement. Therefore, an urgent paper was presented to the meeting of Companies Committee on the 22nd September 2020, which set out the basis upon which LeisureSK was being established.
- 1.6 As a result of this meeting, Companies Committee recommended that Council should consider the establishment of an initial budget envelope to cover any necessary expenditure prior to the company being fully established. This budget envelope is to be capped at £500,000 and full details on any expense incurred should be provided to the next meeting of Companies Committee on the 21st October 2020.
- 1.7 To ensure there is a robust process around expenditure it was also recommended that delegated authority should be provided to the Strategic Director for Growth, in consultation with the Section 151 Officer, to assess any necessary payments.
- 1.8 The upfront costs to cover the necessary expenditure which will ensure that LeisureSK is operationally ready to take over the leisure service on the 3rd January, include:

Task	Approximate cost £
Company set up	10,000
Professional advice	20,000
Operational Assets	250,000
ICT System and equipment	120,000
Development of policies and procedures	15,000
Current Anticipated Total	415,000

This table is not intended to be an exhaustive list and there may be additional expenditure required. However, it is also hoped that there will be opportunities to minimise these costs.

- 1.9 In addition to this, at the July meeting of Council a budget of £500,000 was secured to cover any future payments due to 1Life to cover operational shortfalls resulting from the Covid-19 recovery period. It is hoped that it may be possible to achieve a saving on this budget in order to off-set some of the expense in relation to the formation of LeisureSK. Sport and Leisure Consultancy Ltd have been retained by the Council to ensure that there is a robust monthly reconciliation undertaken in relation to any financial support provided, and that all the costs claimed are evidenced.
- 1.10 The transfer of the leisure service will be a significant undertaking for the Council and resource has been identified from key Council departments in order to ensure the necessary work can be accommodated and completed within the timeframe. A full mobilisation plan is also being developed including all the necessary tasks and critical timelines.
- 1.11 Due to the urgent nature of the work, and in a bid to secure the trading name LeisureSK, a shell company has been registered at Companies House. As an interim measure Cllr Barry Dobson has been appointed as a sole Director of the company. A further report will be presented to Council on the 26th November to consider the appointment of additional directors in order to ensure the Board has an appropriate mix of skills and knowledge.
- 1.12 Due to the size and nature of the company it is proposed to recruit a Non-Executive Director with in-depth leisure industry knowledge to complement the Board of Directors. On the successful conclusion of the recruitment process a paper will be presented to Council to also consider this appointment to the Board.

2 Consultation and Feedback Received, Including Overview and Scrutiny

- 2.1 A report was presented to Cabinet on the 18th August which set out the options available to the Council on the expiry of the current contract arrangements on the 2nd January 2021. As a result, Cabinet recommended that the leisure service be transferred to a wholly-owned Council company from the 3rd January 2021. Cabinet further recommended that a report be presented to Companies Committee at the earliest opportunity which set out the optimum company structure in order to take advantage of any VAT and business rate relief.
- 2.2 At a meeting of Companies Committee on the 22nd September Members endorsed the early formation of LeisureSK and recommended that Council should approve an initial budget envelope of £500,000 to cover any necessary expenditure prior to the company being operational. To ensure there was a robust process around any necessary expenditure it was also recommended that Council provide delegated authority to the Strategic Director for Growth, in consultation with the Section 151 Officer, to assess and authorise any necessary payments in this regard.
- 2.3 At the meeting of Companies Committee on the 22nd September it was agreed that a further report should be presented to the meeting of Companies Committee scheduled for the 21st October 2020. This will provide the opportunity for Companies Committee to consider and provide advice on the proposed company structure and five-year business plan. Further details will also be provided on the costs to be incurred in advance of the company being established.
- 2.4 LeisureSK will manage the leisure services on behalf of the Council under a contract arrangement. This will include a leisure services specification which will set the direction of the leisure service and the operational parameters relating to the leisure facilities. At a

meeting of Culture and Visitor Economy Overview and Scrutiny Committee on the 15th September Members received a presentation and provided direction on the on the future vision for the leisure service and how operations at the facilities should be improved. This feedback has been captured and will be fed into the leisure specification which is currently in development.

3 Available Options Considered

- 3.1 It will not be possible for the Council to fully establish LeisureSK without incurring some upfront costs. An appropriate budget envelope will ensure that the company can be fully established and operational in order to ensure there is a smooth and timely transition to the new arrangements.

4 Preferred Option

- 4.1 Cabinet has made the decision to transfer the management of the leisure service to LeisureSK on the expiry of the current contract on the 2nd January 2021. There will be a need to ensure that there are appropriate resources in place to ensure a smooth transition to the new arrangement. The budget envelope requested within this report will ensure the necessary steps can be taken in order to ensure the leisure facilities are operationally capable from the 3rd January 2021.

5 Reasons for the Recommendation (s)

- 5.1 The recommendations within this report will ensure that LeisureSK can be established as a company with the necessary infrastructure in place to facilitate a smooth transition of the leisure service on the 3rd January 2021.
- 5.2 As this expenditure will be necessary in advance of the company structure and business plan being considered, it has been requested that delegated authority be provided to the Strategic Director of Growth, in consultation with the Section 151 Officer, to assess and approve any necessary spend against the budget envelope. This will ensure there is a robust process in place before any spend is committed.

6 Next Steps – Communication and Implementation of the Decision

- 6.1 A detailed mobilisation plan has been developed which outlines the actions the Council will need to take, including the associated timelines, in order to facilitate a smooth transition of the leisure service to LeisureSK. A project team has been developed and resource secured from key Council departments to support this work.
- 6.2 External advice is being received to ensure that the company structure is the most tax efficient and maximises any fiscal or business rate opportunities available. This will form the basis of the company structure which will be presented to Companies Committee on the 21st October 2020.
- 6.3 SLC have been retained to develop and further refine the business plan for LeisureSK, this will include trading projections for a five-year period. This will also be presented to Companies Committee for consideration on the 21st October 2020.
- 6.4 Should the recommendations within this report be supported the Council will commence a recruitment process for a Non-Executive Director with the relevant leisure industry knowledge and experience. It is proposed that this appointment will be considered at a future meeting of the Council on the successful conclusion of the recruitment process.

7 Financial Implications

- 7.1 The requested budget is necessary to ensure that any financial implications arising from the mobilisation plan between the incumbent contractor and the Council owned company can be acted upon with a specific budget. Based on the current mobilisation assessment, the requested budget will be the upper ceiling and there will be the appropriate governance in place to ensure expenditure is necessary and satisfies value for money tests.

Work is ongoing to assess the operating model of LeisureSK and the level of management fee that may be required by the Council to the company to deliver leisure services. This work is necessary to ensure that the business plan presented to Companies Committee on the 21st October contains a high degree of financial certainty.

Financial Implications reviewed by: Richard Wyles, Interim Director of Finance.

8 Legal and Governance Implications

- 8.1 If the Council is to take over the services through a wholly-owned company, it will need to commence preparatory work urgently and will require an appropriate budget envelope. In the absence of any other viable option there is a pressing case to provide the necessary budget envelope, allowing full details on spend and the business plan to follow.

Legal Implications reviewed by: Shahin Ismail, Director of Law and Governance

9 Equality and Safeguarding Implications

- 9.1 Prior to the transfer of the leisure service appropriate policies and procedures will be developed to include an appropriate Equality and Diversity Policy and Safeguarding Policy.
- 9.2 LeisureSK will need to ensure that both the staff employed, and the customers who use the facility are not disadvantaged or adversely affected by any of the policies and procedures adopted.

10 Risk and Mitigation

- 10.1 A project risk register is being developed which will identify and mitigate the risks involved in the transfer of the leisure service to LeisureSK.

11 Community Safety Implications

- 11.1 None arising from this report.

12 How will the recommendations support South Kesteven District Council's declaration of a climate emergency?

- 12.1 The Council's leisure facilities currently account for 41.5% of the Council's carbon emissions. Taking direct control of the leisure facilities provides the opportunity to assess carbon efficiency measures, particularly as part of the planned improvements to the leisure centres.

13 Other Implications (where significant)

- 13.1 None in relation to this report.

14 Background Papers

- 14.1 Exempt report to Cabinet dated 18th August 2020.
- 14.2 Exempt report to Companies Committee dated 22nd September 2020.

Report Timeline:	Date of Publication on Forward Plan (if required)	Not applicable
	Previously Considered by: Companies Committee	22 September 2020
	Final Decision date	1 October 2020