



Developing the local government services market

Working paper on the future for the leisure services
market



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PricewaterhouseCoopers LLP

May 2007

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Executive summary

- 1 This working paper sets out the key findings from recent research undertaken by PricewaterhouseCoopers LLP on behalf of the Department of Communities and Local Government. The paper considers the development of the community leisure market in local government, and is part of a wider study of key local government supply markets. It contains key messages for policymakers, suppliers, and commissioners operating in the sector.

Policy Context

- 2 The UK leisure market is currently under scrutiny to deliver against a challenging agenda to improve performance and participation in sport to meet sporting excellence, well-being and wider social benefits at a comparable level with international peers:
 - The Government has set challenging targets to increase participation by 1% year on year for the next 15 years¹, realise the potential of investment in school sports through stemming post school participation drop off rates and grow the pool of talented participants which form the bedrock of elite success.
 - Recent strategic reviews of sporting and recreational provision, ‘Game Plan’² and the ‘Carter Review’³ have identified that although investment in elite sport is starting to reap some benefit in terms of sporting excellence, UK leisure provision performs unfavourably when compared with peer group nations in terms of sporting and health outcomes and per capita funding for sport.
 - Nationally, the network of sporting provision is fragmented, complex and diverse with a range of public, private and voluntary sector providers operating within locally determined structures. One of the key concerns with public sector facilities is that much of the stock in public ownership is in poor condition, with an estimated £550⁴ million required to keep it in working order.

1 *Game plan – a strategy for delivering the Government’s sport and physical activity objectives*, Strategy Unit & Department for Culture Media and Sport, 2002

2 *Game plan – a strategy for delivering the Government’s sport and physical activity objectives*, Strategy Unit & Department for Culture Media and Sport, 2002

3 *Review of national sport effort and resources*, Carter, P. 2005.

4 *Condition and refurbishment of public sector sports facilities*, Davis and Langdon for Sport England, 2002

Current market

- 3 Four classes leisure services supplier are currently active in the national leisure market:
 - Local Authority in-house, managing stand alone leisure facilities and those co-located with or part of education facilities.
 - Private owner-operator leisure providers involved in health and fitness, private health club, limited multi-use sports provision (for example Cannons, Virgin Active, Fitness First, Holmes Place, Esporta) and some niche provision associated with the brand, for example David Lloyd which is associated with tennis.
 - Private sector providers contracted to Local Authorities. A limited number of these are also involved in capital re-development of facilities, including through the Private Finance Initiative, for example DC Leisure, Leisure Connection, Parkwood Leisure.
 - Not for profit Trusts, many of which have developed from local authority facilities and now operating as arms length managing organisations. Some Trusts have expanded to provide management contracts and asset development services outside their home authority base. Some private sector operators have set up hybrid trusts to manage local authority leisure contracts.
- 4 Informal sports such as fishing, cycling and the network of club provision account for 43% of participation and must also be considered in relation to the drive for participation to improve health outcomes.

Challenges and opportunities

- 5 If the current leisure market is to respond to the demands to improve the quality and accessibility of provision, optimising participation and choice, a series of challenges will need to be addressed. These fall into three broad issues: historic and current under investment, a lack of strategic planning and limitations in the current market of provision.

UNDER-INVESTMENT IN LEISURE

- Much of the network of local authority owned leisure facilities is over 20 years old and in poor condition due to historic under investment. In 2002, it was estimated that the scale of the maintenance backlog was £550m⁵, more than double that required in 1995.

⁵ *Condition and refurbishment of public sector sports facilities*, Davis and Langdon for Sport England, 2002

- Current funding streams, (for example lottery and PFI), are limited and do not relate in quantum terms to the level required for investment. In 2002, capital replacement costs were estimated at £4.5 billion⁶, whilst available PFI credits for sports and culture projects is £130 million for 2005 – 2007.⁷ In addition, date, delivery against funding streams has been slow, with only 10 PFI schemes confirmed or delivered since 2001 with a total value £180m. This may be exacerbated by the cost and speed of procurement through PFI/PPP, and resulting barriers in the market.

LACK OF STRATEGIC PLANNING

- Service planning in the public sector is typically asset focused, lacks strategic direction and is in many instances driven by replicating existing patterns of delivery. It fails to consider what the optimum range, location and management arrangement should be. Opportunities for rationalising provision across local authority boundaries, sharing resources or recognising the contribution of private sector facilities/facilities or facilities on school sites are generally bypassed. Evidence⁸ suggests that lack of scale/integrated planning is more marked in two tier areas of local government.
- In addition, service delivery frameworks are largely un-coordinated between public, private and voluntary sector leisure providers, both nationally and at a local level. Provision is therefore not optimised to demand and is therefore likely to have the impact of ‘crowding out’ market efficiency, which could discourage new providers from entering the market.
- A further challenge is that there is limited data to inform strategic planning. There is no framework for co-ordinating data to inform needs assessment or identify service inputs to outcomes. In particular for participation and social outcome data that benchmarks current performance by provider in local areas. It is not possible to either plan holistically taking into account the contribution of different types of provision, nor necessarily to understand what the optimum service solution might be based on understanding the quality and effectiveness of interventions against outcomes.
- Fragmentation of funding: The majority of public investment in sports facilities in recent times has been through schools facilities, (BSF, NOF for PE and sport and the extended schools programme), accounting for 78% of new facility development in 2004. Some private sector investment has been achieved through PPP/PFI, but in the main investment in the wider leisure estate has been in private health club development by the private owner/occupier providers, £10 billion over 15 years. Public investment in sport is not planned or targeted as part of any co-ordinated strategy for delivery, which takes account of the contribution of private investment. Nor is it predicated on any performance management framework which considers the impact of investment against delivery of outcomes.

6 *Condition and refurbishment of public sector sports facilities*, Davis and Langdon for Sport England, 2002

7 *Local Authority Private Finance Initiative Proposals for New Projects*, DCMS, 2004

8 *Public Sports and Recreation Services – Making them fit for the future*, Audit Commission, 2006

LIMITATIONS IN THE CURRENT MARKET OF PROVISION:

- Over 60% of local authority leisure facilities are managed in-house, and whilst there has been an increase in management by arms length trust organisations, this is largely determined outside of outside of competition or robust options appraisal which challenges solutions to identify the most effective way of providing the service. There is therefore little market challenge to in-house providers
 - In addition, the majority of in-house providers and trusts are single-site providers duplicating back office and other common resources. Externalised services are generally procured and contracted to a single authority, whilst the private owner occupier business model is structured so that it can be branded and replicated across a number of sites. In seeking more creative service solutions from the supply chain, it may be necessary to challenge current delivery models to create flexible mixed economy solutions which have the capacity to leverage scale efficiencies whilst providing services tailored to local circumstances.
 - Supplier dialogue: local authority partnerships with the private sector, service partners, (for example education and health) and with the voluntary sector are not well established. Investment in innovation, more effective management of deal-flow in partnering, and a more constructive engagement between commissioners and suppliers needs to be addressed through improving market dialogue and market intelligence. This will include engaging with the Voluntary Sector on developing their leisure offerings.
 - Quality of procurement processes. The quality of local authority procurement is highly variable. Often it is overly complex with unrealistic timescales, lacking in innovation and insufficiently focused on outcomes.
- 6 If we consider these challenges together, there may be a number of opportunities for better co-ordination of public, private and voluntary sector activity and investment to meet the demands of improved quality of leisure services and increased participation in sport:
- The opportunity to coordinate public, private and voluntary sector provision and investment, creating synergies. This will mean moving away from a fragmented leisure market to a unified, but still diverse, flexible market operating within a common framework for delivery.
 - The opportunity for local authorities to refocus their efforts from direct delivery to strategic commissioning and market management. This shift may be dependant upon a clearer policy direction or regulation from central government.
 - The opportunity to develop a framework for needs assessment based on benchmarking participation and other social outcome data. This should encourage commissioners and suppliers to develop more efficient and outcomes focused solutions.

- The opportunity to diversify the single site provider model by encouraging a mixed economy of supply through developing alternative service delivery models.
- The opportunity to improve market dialogue and market intelligence to encourage investment in innovation, more effective management of leisure procurement and joint commissioning with service partners in health and education, and a more constructive engagement between commissioners and suppliers.
- The opportunity for greater standardisation in procurement to sustain current supply chains and incentivise new market entrants.
- The opportunity to consider decoupling service delivery from asset provision, where the costs of refurbishment cannot be reconciled with achieved outcomes. This might involve the targeting of funding at disadvantaged groups or wider usage through personal funding support, for example through a smart leisure/community card which gives access to a range of sports and recreation facilities not necessarily in local authority ownership.

An opportunity to re-configure existing patterns of service delivery through strategic asset planning. This would include:

- Facility planning in relation to demand at a supra-authority level, accounting for other public, private and voluntary sector provision.
- Co-ordination of capital funding and investment leverage in relation to outcomes.
- Strategic planning within available funding, including dis-aggregation of core leisure revenue budgets for leisure services delivered in a variety of community settings.
- Improved participation and demand data which allows planning of leisure provision to be considered on a strategic basis across the range of provision.
- An opportunity for releasing leisure assets to community or third sector ownership and creating sustainable revenue streams for alternative providers.

Moving forward

- 7 Finally, there are a number of wider implications for the development of a long term strategy for local government. These implications are outlined below.
 - a. Through a more integrated approach to facilities planning the market for leisure might develop, by moving away from the current approach which pre-dominates in community leisure provision for facility owners to also be directly involved in service delivery. It will be important, therefore, for local

authorities to shift from a response focused on delivery, to one of market management and strategic commissioning. This would facilitate access to public leisure provision by existing and new suppliers; increase the capacity of the existing supply chain to create a mixed economy of service offerings; and make the best use of the available investment pot. This will include:

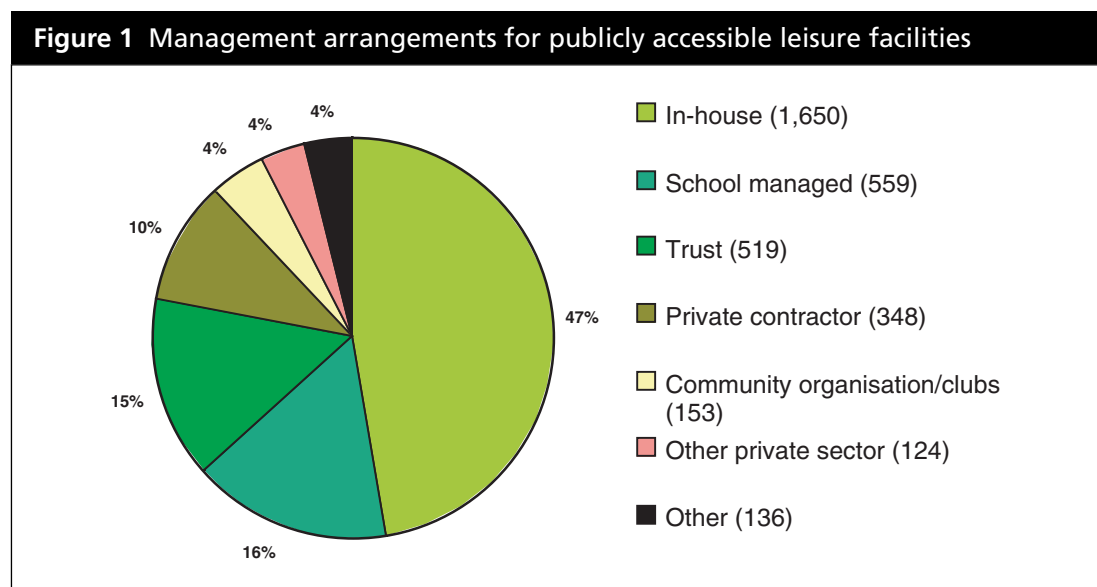
- Individual authorities ‘owning’ the management of the market at a local level and local government collectively managing the market on a regional and national scale.
 - Proactive supply chain management to diversify capacity and grow the capability and ‘buy in’ of suppliers who have not been traditionally connected with the community leisure market. This would also include lowering entry barriers to community and social enterprise suppliers.
- b. There is a strong likelihood that clear policy direction or regulation may be required to facilitate the de-coupling of delivery from strategic service, asset and resource planning.
- c. It is possible to develop a national framework approach to planning for and delivery of community outcomes, which takes into account contributions from across the supply chain, assessed on the basis of which is best placed to provide it. This will require a national approach to needs assessment capable of identifying inputs to outcomes. In particular, participation and social outcome data that benchmarks current performance by provider in local areas. Without this, it is not possible to either plan holistically taking into account the contribution of different types of provision, nor necessarily to understand what the optimum service solution might be based on understanding the quality and effectiveness of interventions against outcomes.
- d. A consideration of whether the current structure of local government is ‘fit for purpose’ in supporting a market management/strategic commissioning role, and particularly the capability of councils in two tier areas to achieve scale in planning and delivery.
- e. A more holistic view of the diverse capital and revenue funding streams which contribute to investment in leisure and delivery of leisure services is needed to achieve maximum impact against outcomes.
- f. Increasing customer choice and increasing participation may mean opening up the leisure market to a greater number of players across the public, private and voluntary sectors.
- g. A clearer framework of standards which can be applied across all classes of providers will be required to secure a common platform and standard for improving service standards across the piece. This will be key if service commissioners are to recognise the contribution made by all classes of leisure provider in an area. It will also enable customers to exercise choice based on an independent assessment of quality.

- h. Progress in local government's commissioning capacity and greater standardisation in procurement can be developed and oriented towards improved supply chain management.
- i. In considering the current level of public investment for leisure, it is appropriate to account for the contribution made to cross cutting outcomes such as crime reduction, educational attainment and wellbeing.

Background and market context

Background and context

- 8 The landscape of leisure provision in the UK is diverse, complex and for the most part un-coordinated between public and private sectors. In many respects this has arisen as the market has segmented in response to both ‘provider’ and ‘demand driven’ approaches to facility development. ‘Sport for All’ policies in the 1970’s placed local authority owned leisure centres in most significant population centres. Since then, whilst local authority facilities have been suffering the effects of under-funded maintenance regimes, a surge in the popularity of health and fitness has seen the growth of purpose-built, membership-based private leisure facilities. This trend has continued to date, with the private sector investing an estimated ten billion pounds in the development of the private health club market over the last fifteen years. Sports clubs, not-for-profit trusts, contracted-out community leisure services and social enterprise organisations complete the patchwork of provision. Recent strategic reviews of sporting provision in the UK suggest that this pattern of service provision has failed to operate within a common delivery framework or to an agreed common end-game.
- 9 Private sector provision has grown rapidly since the 1980’s. In 2005 there were 2060 private health and fitness clubs throughout the UK⁹, with the number of local authority provided facilities at 1892. The break down of publicly accessible facilities by type of management arrangements is shown in the figure below.¹⁰



Source: The Leisure Data Base Company. Base: all public leisure facilities

9 Source: The Leisure Database Company

10 *Public Sports and Recreation Services – Making them fit for the future*, Audit Commission, 2006

10 Whilst local authorities operate directly just under half of publicly accessible leisure facilities, leisure is a discretionary service, delivered by District or Unitary Councils which can be delivered in a range of formats. Leisure provision in the UK fall into five classes of provider:

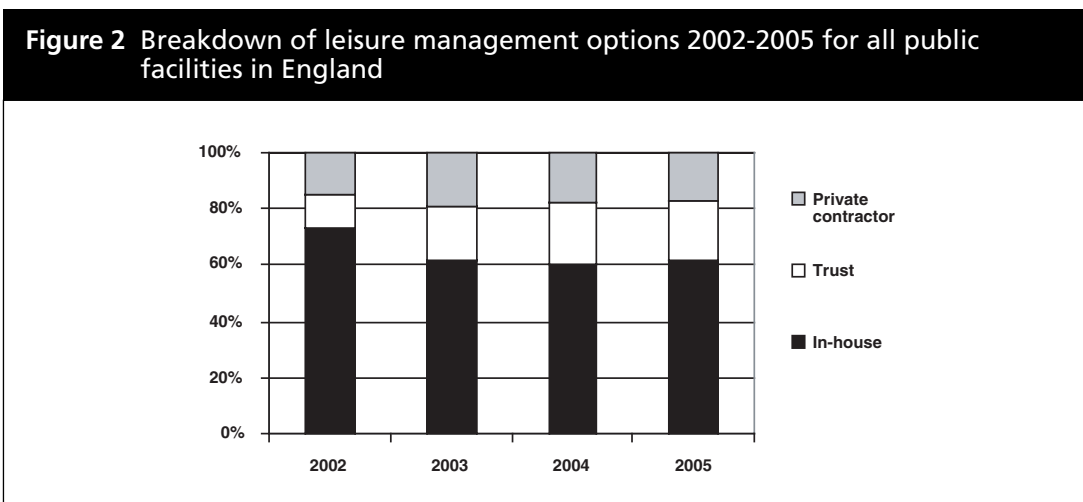
- Local Authority in-house, managing stand alone leisure facilities – a Direct Service Operation (DSO)
- Private owner occupier providers involved in the owner/operator health and fitness, private health clubs, limited multi-use sports provision (e.g. Cannons, Virgin Active, Fitness First, Holmes Place, Esporta) and some niche provision associated with the brand, e.g. David Lloyd and tennis.
- Private sector leisure operator providers involved in leisure management contracting to Local Authorities. (e.g. Serco, DC leisure, SLM, Leisure Connection, Parkwood Leisure). A limited number of these are also involved in capital re-development of facilities, for example through the Private Finance Initiative.
- Not for profit Trusts, many of which have developed from local authority in-house direct service organisations and now operate at arms length. Some trusts have expanded to provide management contracts and asset development services outside their home authority base, the most notable of which is Greenwich Leisure which operates over 40 facilities. Some private sector operators have set up hybrid trusts to manage local authority leisure contracts. All Trusts enjoy tax concessions to some degree¹¹ which subsidise the overall cost of service provision. Trusts are a management option which is increasingly favoured by Local Authorities, demonstrated by an ILAM survey in 2005¹² which reported that 92% of local authorities would consider the trust option. There has been year on year growth in the numbers of trust operated Local Authority sites¹³.
- Local Authority direct service operations and community dual use facilities on education sites. The table below compiled from a recent Audit Commission study illustrates that whilst in-house management at 60% remains the management option of choice, it is decreasing relative to management by Trusts. Private sector operation of local authority owned facilities has remained static at 17%.¹⁴

11 Leisure Trusts with charitable status are able to qualify for up to 100% reduction on Business Rates, (NNDR), and also have the potential to achieve a beneficial VAT position.

12 *Survey of local authority facility management arrangements*, Institute of Leisure Management, 2005

13 *Public Sports and Recreation Services – Making them fit for the future*, Audit Commission, 2006

14 *Public Sports and Recreation Services – Making them fit for the future*, Audit Commission, 2006

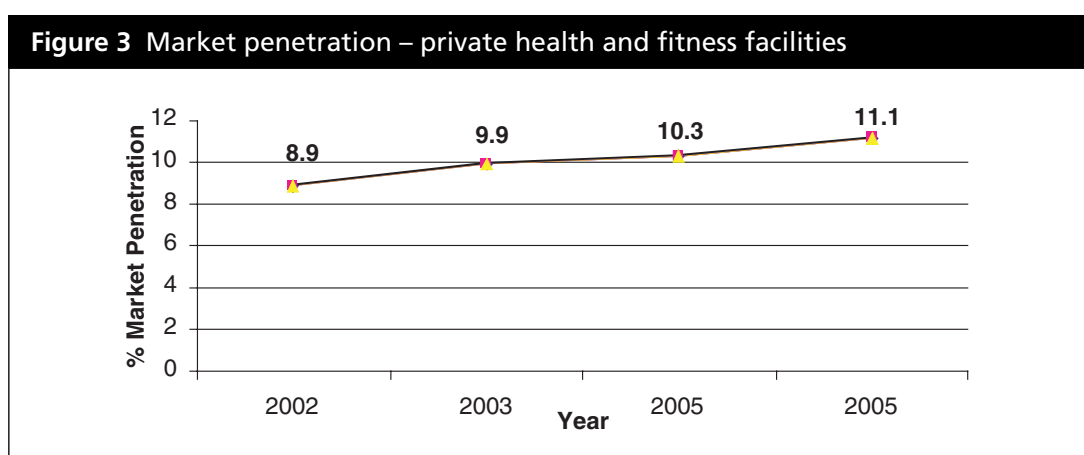


- 11 Local authorities have a range of management options for leisure facilities within their ownership:
- In-house direct service delivery
 - Outsourced delivery by private sector contractors or arms length organisations such as a not-for-profit Trusts
 - Elect not to provide the service directly but co-ordinate a strategy which reflects in the round the opportunity for delivering outcomes through community programmes, recognising the contribution of education based community provision, voluntary sector and private providers (this is not a popular alternative, but we are aware of a local authority which is about to pursue this option)
- 12 In addition, there is a range of informal and club based opportunity for leisure participation which may also receive some form of public subsidy, for example cycle paths, walking trails, dance classes, sports clubs etc.
- 13 As an investment hungry discretionary service, leisure has tended to be rated fairly low down in local authority priorities with one London Borough recently ranking its priority status as 134 out of 155 services.¹⁵ In previous CPA rounds leisure services have been allocated a small weighting for CPA purposes although with the focus on participation and other key indicators for CPA 2005 the emphasis on the leisure and cultural services block is likely to shift, albeit that the legacy of underinvestment gap remains.
- 14 Out of the 1892 public sector leisure facilities in England, the majority are showing signs of chronic underinvestment. The current average age of the facilities is 25 years, which is greater than the economic life of 21 years.
- 15 With estimated investment required in the national largely local authority owned leisure estate at £4.5 billion¹⁶, and limited capital funding sources

¹⁵ *Review of national sport effort and resources*, Carter, P. 2005.

¹⁶ *Condition and refurbishment of public sector sports facilities*, Davis and Langdon for Sport England, 2002

available, (DCMS allocated £130 million of PFI credits for 2005-07, diminishing lottery funding, £268m in 1997/98 and £170m in 2005/06), there is a clear need to identify other options for investment including any opportunities with the private ‘owner operator market’ which has invested £10m in the private health club market over the past 15 years. Although recent growth has slowed, most operators agree that there is further untapped demand in the market. Recent results published by the Fitness Industry Association shows that market penetration continues to grow with the feeling in the industry that saturation point has not yet been reached (figure 3):¹⁷



Source: The Leisure Data Base Company

- 16 From the round tables there was a clear sense that to resolve the investment and participation challenges, a more strategic approach to facility planning which engages all models of provider is needed. This view is also reflected by Matthew Taylor writing in the Guardian,

*“there is no facilities planning strategy in the UK...we have no overall idea of what we have got, what new facilities we need and what really needs improving. We are spending all this money on facilities but we not even sure if it is being spent in the right places and on which areas which require the facilities. There is no co-ordinated approach”.*¹⁸

- 17 Overall, therefore, although the leisure market is mature and well established, it is fragmented and fails to take advantage of opportunities for synergy between different sectors to improve outcomes. Although there is a fairly diverse base across delivery models, the market is not aligned to providing a mixed economy approach to leisure services. The supplier base, current delivery formats and frameworks will need to alter if the Government’s aspirations for participation, achievement and wellbeing comparable to international peers is to be realised.

¹⁷ *Encouraging growth in the annual UK state of the Fitness Industry*, Fitness Industry association, August 2005

¹⁸ The Guardian 21 August 2004 ‘Special investigation £2b fails to revive our sport life’ Matthew Taylor, Vivek Choudhary, Paul Kelso, Stuart Miller

Current market – key challenges and opportunities

- 18 The Government's future strategy for sport and recreation, *Game Plan*¹⁹ identified a series of barriers which must be overcome if the overall objective of making England the most active and successful sporting nation in the world is to be realised, notably:
- Sports provision/policy lacks vision and a clear sense of direction
 - Despite significant public investment in sport in recent years participation levels are low and have remained static in comparison with similar European countries and around the world
 - Sport lacks a robust evidence base to support its case for continued and increased levels of public funding
 - Sporting structures are confused and in many cases ineffective and inefficient
 - There is a need for collaborative working between agencies.
- 19 The consequence identified by the Carter Review²⁰ is that UK leisure provision performs unfavourably when compared with peer group nations as in terms of:
- Sporting outcomes, participation, club membership and elite success
 - Health outcomes, including obesity and heart attacks where comparisons are unfavourable
 - Per capita funding for sport, where the UK has fallen behind all peer nations apart from Germany.
- 20 Ambitious targets to improve participation have been framed by government:

DCMS PSA target – *“enhancing the take up of sporting opportunities by 5 to 16 year olds so that the % of school children in England who spend a minimum of 2 hours each week on high quality PE within and beyond the curriculum increases from 25% in 2002 to 75% in 2006”*

¹⁹ *Game plan – a strategy for delivering the Government's sport and physical activity objectives*, Strategy Unit & Department for Culture Media and Sport, 2002

²⁰ *Review of national sport effort and resources*, Carter, P. 2005.

Labour Manifesto commitment – “To secure access for all to high quality leisure facilities within a 20 minute travel time and the revised Game Plan target of increasing the active % of the population by 1% each year to achieve 50% by 2020”.

- 21 However, the Carter Review has acknowledges that delivering these targets will be challenging:

*“[unless the] diverse range of public, private and voluntary sector providers, operating within locally determined structures ‘join up’ their approach to community delivery [there is a] risk of not achieving the key policy objective of increasing and widening the base of participation, which would lead to a healthier nation, not fully realising the investment in school sport, and not sufficiently developing the pool of talented participants which form the bedrock of elite success”.*²¹

The challenge of under investment

- 22 The unfavourable performance compared to international peers in critical areas such as participation, club membership and elite performance has been to a great extent a result of significant underinvestment in sport and recreation at a national and local level. In England over 65% of local authority leisure facilities are over 20 years old and require significant investment to maintain quality leisure environments fit for purpose and remain competitive with private sector facilities. Underinvestment in maintenance will, in time, inevitably contribute to migration of customers to private sector facilities or to inactivity.
- 23 A Sport England Study²² in 2002 reported the capital replacement value of public sports facilities to be £4.5 billion with expenditure of £515 million needed immediately over the 5 years from 2002 (this has increased from £205 million in 1995). To put this into context current public funding availability for expenditure on leisure investment is as follows²³:

Table 1 Potential capital funding streams for investment in leisure facilities	
Potential capital funding stream	£ millions
DCMS PFI credits 2005/07	130
NOF third round	581
Active England	100
Prudential Borrowing ²⁴	89 (Projected 2005/06)
Total	811

²¹ Review of national sport effort and resources, Carter, P. 2005.

²² Condition and refurbishment of public sector sports facilities, Davis and Langdon for Sport England, 2002

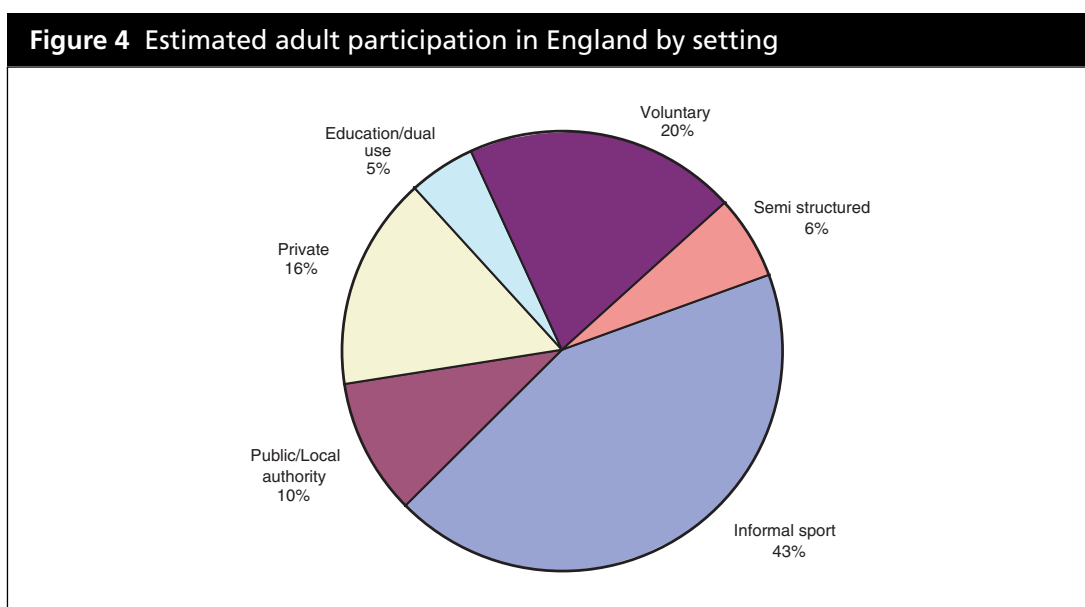
²³ The Iceberg: Capital investment options for increasing participation, Downes, M. for Sport England, 2004

²⁴ Loosening the reins: A survey of local authority approaches to prudential borrowing, charging and trading, Local Government Association, 2004

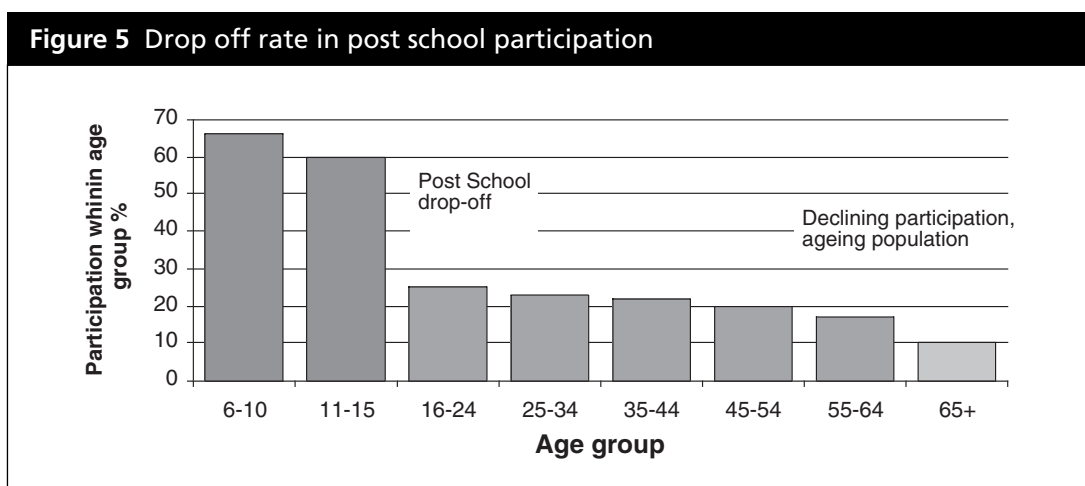
- 24 The lack of investment coupled with massive growth in the private sector, (£10 billion investment over the last 15 years), and increasing customer expectation and choice has resulted in a trend of falling income and attendances in the public sector. However, growth in the private sector use has not compensated for the lack of investment in public sports facilities, as participation has fallen steadily from 48% in 1990 to 43% in 2002.²⁵

Public vs. private

- 25 Figure 4 below shows that public provision and education facilities account for slightly less than the private sector in overall adult facility usage. It also highlights the significance of informal and voluntary sector provided activities, collectively accounting for 63% of active participation.

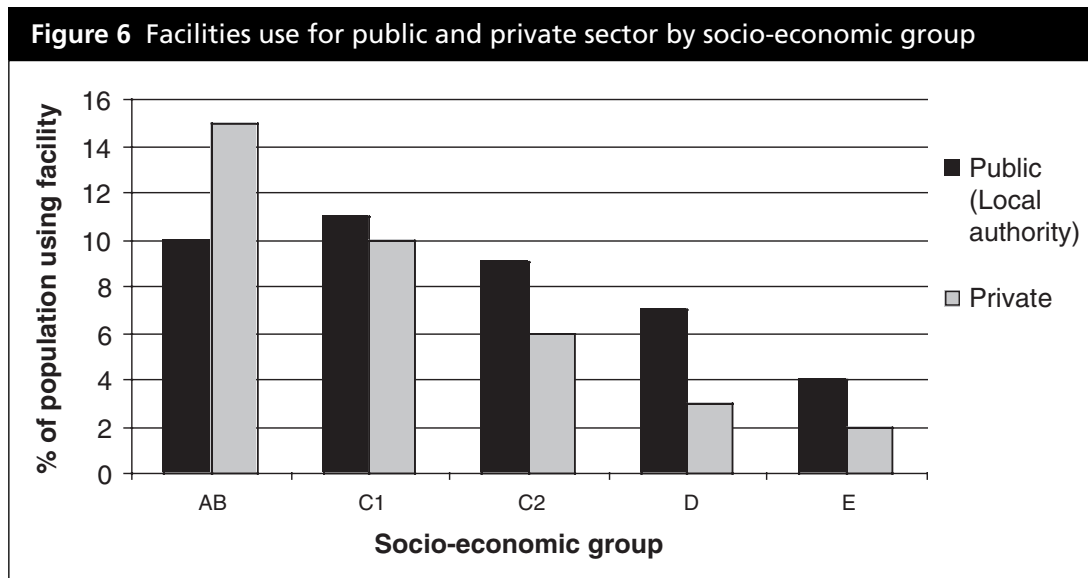


- 26 Neither public nor private sector provision is stemming the drop off rate in post school participation which threatens to undermine the successful investment in school sports (figure 5).



²⁵ General Household Survey 2003; Participation is defined as the % of adults from the total population taking part in sports and leisure in the previous 4 weeks.

- 27 Whilst participation in sports by social class AB is catered for primarily by private health club providers, private facilities attract users from all socio-economic groups and therefore make a significant contribution to participation. In local authority centres 11% of customers are from social class D/E compared to 6% in the private sector. These rates compare poorly to the overall percentage of the population of D/E of 26% indicating significant unmet demand in these population groups (Figure 6).



- 28 The Carter Review also highlighted that variable performance amongst local authority managed facilities with subsidised provision ranging from the generation of small surpluses to a contribution of £13.00 per head. The level of subsidy may be due to poor cost management, lack of an entrepreneurial approach to income generation or the demographic characteristics of the local area. A recent Audit Commission study could not differentiate management options on quality but reported that in-house management by councils was significantly more expensive.
- 29 A study by Sheffield Hallam University²⁶ investigated the effectiveness of public sector provision, (measured by the criteria in the SE National benchmarks), in the context of a range of management options, (in-house, private sector contract, trust and education dual use). The headline findings were:
- **Access indicators:** In-house management and private providers perform well, education management perform poorly in comparison.
 - **Utilisation indicators:** Private/commercial providers perform relatively well, education management perform relatively poorly for utilisation indicators.
 - **Financial indicators:** Private/commercial contractors and education management perform relatively well and local authorities perform relatively poorly.

²⁶ *Social inclusion and commercial leisure management contractors*, Taylor, P., 2004

- 30 From the above it is clear that the private sector has much to offer in improving the net revenue cost of leisure management whilst driving up participation and improving performance against key social outcomes. The private sector also has money to invest either directly in local authority owned facilities or in new facility development. There is a clear perception in the leisure industry, corroborated by discussion at the round table, of a reluctance on the part of the public sector to engage. Absence of transparent tendering processes, planning restrictions, transferring management to trusts without robust assessment of options and public sector scepticism over the private sector orientation to community driven service delivery, are cited as reasons for this.
- 31 Because robust baseline data on sports participation do not exist, performance management in the sports sector linking inputs to effective outcomes is generally poor and patchy. Historically there has been little in-depth analysis of the barriers to sports participation as well as the interventions which work best in achieving lasting behaviour change. As a consequence it is not always possible to define with complete clarity what 'excellent and effective' leisure service delivery looks like. This in turn compromises the ability to scrutinise and verify options appraisal for service delivery.
- 32 It would appear therefore that there is potential to improve the 'joining up' of the supply chain to improve strategic targeting of facility and programme development and meet previously for unmet demand and enhance participation. This key challenge can be distilled to the following questions:

Sector specific issues affecting suppliers/potential suppliers in the leisure market

- What options should local authorities consider to improve leisure outcomes?
- How can private sector leisure providers be incentivised to engage with a common framework of strategic planning of sport and recreational service delivery?
- Are there any barriers to engagement and how can they be overcome?
- Is commissioning effective?
- What are the barriers to entry/further penetration for existing and new leisure suppliers?
- What is the role of the not-for-profit trust in community leisure delivery, now and in the future?

Access to investment/funding for leisure

- How can current investment/available funding be better targeted to maximise outcomes?
- What is the investment/funding gap? What are the opportunities for investment leverage?

Strategic commissioning for facilities and service planning in a wider regional and national context

- Are there are alternative more effective ways of delivering leisure services outside of the current framework/models of provision?
- What is the role of Local Authorities as ‘Strategic Commissioners’ and ‘Market Shapers’ in creating synergies in provision between all classes of leisure supplier, opening up the supply chain and developing more effective models?
- How can the role of informal leisure participation and the third sector be properly recognised and nurtured within leisure strategies and service planning?
- How can options appraisal based on needs assessment be used to identify what optimum models/providers of services should be?
- Where the market diversifies how can common performance standards be linked to national outcome targets, be established and improved upon?
- How can the significant investment in school sport be linked to outcomes within a delivery framework which incentivises increased participation?
- How can the governance arrangements which drive local leisure strategy ensure user involvement, engagement and recognition of user choice?

Sector specific issues

- 33 Each class of provider in the current supply chain faces slightly different challenges and issues in sustaining their current business focus as well as providing the potential for developing a wider market outlook to growing a mixed economy approach to integrated provision of leisure services.

PRIVATE OWNER OCCUPIER PROVIDERS

- 34 Private leisure operators increasingly favour the large multi-use sports centre model which allows them to cross-sell a range of activities and to smooth fluctuations in the seasonal demand for sports. The target market is families where they consider that there is unmet demand. There are both technical barriers as well as barriers associated with how their potential contribution to delivering leisure outcomes is perceived by commissioners, which inhibits their role as a potential supply chain partner.

TECHNICAL BARRIERS WITHIN THE PLANNING SYSTEM

- 35 Policy Planning Guidance note, PPG17, Open Space and Sport and Recreation, does not include private sector providers within the scope of leisure facility planning. Commercial health and fitness provision is therefore treated in the same way in Planning Use Class terms as passive leisure entertainment such as

cinemas, bingo, pubs etc. Because large multi-use leisure facilities require a significant building footprint, development on large out of town sites can be obstructed by the sequential use planning test under PPG6, Town Centre Land Use and Retail Development. This may contribute to a disincentive for local authorities to set aside land for the development of commercial sports facilities. The way in which sport and leisure is provided in multi-use settings has altered since the drafting of PPG6, and we understand that Department for Communities and Local Government has no presumption against development outside town centres, particularly in relation to sports facilities which have a community benefit and is further prepared to engage in discussion to clarify the issue. Excluding active sport and leisure provision from the policy test in PPG6 and recognition of the private sector within PPG17 would clarify direction for local authority planners.

- 36 The lack of needs assessment prevents full recognition of the contribution made by privately provided and non-local authority provided leisure to community outcomes, which in turn erodes the ability to gain benefit from the planning system through setting policies, supplementary planning guidance and leveraging on Section 106 agreements.

CULTURAL AND PERCEPTION BARRIERS BY LOCAL AUTHORITY COMMISSIONERS

- 37 Private leisure operators find it difficult to engage with local authorities in a dialogue about opportunities to develop sites on the basis of wider facility planning to match a range of need and demand across the local area. This may, in part, be linked to a view held by many authorities that sees membership based pricing as a barrier to inclusion and participation, and therefore doesn't see private leisure providers as having a role in planning for community leisure outcomes. The Carter Review reported that it saw the private sector accommodating a range of participation across socio-economic groups. This is an area where **market dialogue** is needed to create greater understanding between the parties on opportunities for new facility development to meet demand, facility replacement and re-provision. Key to this debate will be:
- The extent to which the private sector owner-occupier market sees the opportunity to tap into the greatest area of unmet demand which is with the socio-economic groups C/D/E.
 - Local authority concerns that greater penetration of local markets by the private sector will reduce the proportion of high income earners in their customer base therefore reducing income generation and increasing the reliance on subsidy.

PRIVATE SECTOR LEISURE OPERATORS INVOLVED IN LEISURE MANAGEMENT CONTRACTING

- 38 Private sector contracting to local authorities is largely serviced by a limited pool of established providers. Local authorities have for many years recognised the value-for-money achieved by private sector management, and it has been a

popular option, generating a regular supply of tenders coming to the market. The trend in recent times, however, is for the local authority managed contract market to remain static; neither declining nor increasing, whereas externalisation to not-for-profit trusts has increased. This has led private leisure management operators to express concerns about the lack of transparency in tendering for contracts where a trust delivery model is in the mix of options²⁷. In particular, they have intimated that the attraction to local authorities of cost reduction through tax breaks in the 'Trust' format could ultimately erode the critical mass of demand for leisure management contracting to the extent that it ultimately results in market decline with key players withdrawing.

- 39 Whilst the impact on the market is clearly an issue, of equal concern is the failure to pursue a proper options appraisal to identify the most effective model of provision to achieve the outcomes sought. The Audit Commission in conjunction with Sport England have undertaken a study to review leisure delivery in terms of participation, equality of access, and cost effectiveness – and therefore value-for-money. It identifies good practice, critical success factors and inherent barriers in relation to different delivery options. This will be valuable in both testing the veracity of options appraisal outcomes and should stimulate more diversity in options for provision.
- 40 Although private leisure management providers are increasingly required to deliver to the neighbourhood and social agenda, there is some lack of confidence amongst commissioners that community outcomes required for 'Sports Development' and 'Community Development' are not deliverable by the private sector. The tendency is therefore, for softer outcomes such as social inclusion and participation targets to be excluded as contract requirements, as are the activities which support those outcomes, such as Sports Development. This in turn may result in some aversion by commissioners in considering private operators as an option for service delivery, although recent research by Sheffield Hallam University shows that in addition to strong business delivery private operators are also capable of driving high performance in access and participation indicators²⁸. A national set of common outcome measures against which in-house and private leisure providers are challenged to deliver, would improve the level playing field of opportunities and allow the private sector to demonstrate a greater depth of offerings. A clear sentiment was expressed by private providers at the roundtable of 'ask us and we will deliver it'.
- 41 There are a range of formats and structures for leisure management contracts being developed in isolation by commissioners to respond to a challenging agenda on integration of leisure with other service delivery, social objectives etc as well as current procurement formats. This is a potential barrier to entry for new providers and increased bidding and therefore overall contract costs for

27 It is possible to structure the delegation of leisure services to a not-for-profit leisure trust such that it remains outwith the European procurement regime. There is in any case an anomaly with tendering leisure management contracts where either the contracting parties income is derived from third parties, (service concession) or there is no requirement for asset related services, (Part B contract) in that the European procurement rules are relaxed, (for example there is no requirement to advertise the project in the OJEU). This may give rise to the perception that there is some lack of transparency/limited visibility of tenders coming to market.

28 *Social inclusion and commercial leisure management contractors*, Taylor, P., 2004

existing suppliers with a consequent impact on the cost/value for money of provision. The 4Ps will be re-issuing the Leisure Procurement Pack²⁹ revised to include guidance on a range of contract options.

LOCAL AUTHORITY DIRECT PROVISION OF LEISURE SERVICES

- 42 Whilst many local authority direct operators can demonstrate a significant contribution to the local sports and recreation agenda as well as wider benefits to health, education and other community outcomes, the majority are caught by the consequences of serial underinvestment in the public leisure estate. Headline performance for local authority direct operated leisure facilities is characterised by falling customer satisfaction³⁰, declining throughput and increasing user subsidy.³¹ The average annual subsidy is £262k per facility.³² Whilst some directly operated leisure facilities attract 1,000,000 or more visits per annum, the majority achieve far fewer.
- 43 The majority of in-house providers are single site operators with duplicate back office and similar resources, and whilst there are very few examples of cross authority leisure management partnerships. An assessment of subsidy on leisure facilities suggests that larger centres and groups of centres tend to be more cost effective than small units, (the average subsidy for top tier facilities is 54p per visit whilst lower tier subsidies average at £3.03). Private sector operators and some Trusts have the benefit of economies of scale in areas such as payroll, training, recruitment, administrative support, marketing etc. Aggregation of back office or facility management provides opportunities for high performing local authorities to rationalise management costs and also share expertise. It may be that it is challenging for Local Authorities to take an objective view as a result of their delivery role involving the employment of staff, local ownership etc.
- 44 On the basis of performance, therefore, commitment to self supply as the predominant means of local authority service delivery does not appear justified and local authorities will need to play a greater role in providing effective contestability. Key to the future of direct local authority provision of leisure services will be the acknowledgement that the chosen means of service delivery must be that which maximises community outcomes in the most cost efficient and sustainable way. This will mean consideration of a full range of options for delivery formats (for example shared services) against private sector delivery options.

'NOT FOR PROFIT TRUSTS'

- 45 The trust model of provision is attractive to local authorities across a range of cultural and leisure service activity which takes place in an asset setting. Whilst community governance and service improvement are issues which are attractive

²⁹ *Leisure Procurement Pack V2, 4Ps, 2005*

³⁰ *Review of national sport effort and resources, Carter, P. 2005.*

³¹ *Review of national sport effort and resources, Carter, P. 2005.*

³² CIPFA leisure and recreation stats 2003-04

in the mix, trust options are often driven by the opportunity for short term cost reduction with a lack of planning and vision for the long term sustainability of the business model. Greater scrutiny of the rationale, opportunities and sustainability of the trust business plans is needed as part of the decision to move to establish leisure services within a trust.

- 46 Key concerns expressed by participants in the roundtable over the long term sustainability of the Trust model of provision as it currently prevails in the market on the basis of:
- Viability as an investment vehicle and long term sustainability of the business model
 - Credibility of Trusts as the ‘best value’ option when they have been created outside of competitive process or robust options appraisal.
- 47 The Audit Commission³³ in their study reviewing value for money of local authority leisure management arrangements found that in some cases the transfer of management to a trust has lead to better quality facilities, reduced costs and higher levels of participation – although most Councils have set up trusts primarily to make savings. It highlights that the cost reduction objective fails to take sufficient account of high set up costs and the opportunity to rationalise central and support costs. Acknowledging that trusts are now part of the supplier base for leisure delivery, it recommends that to establish credibility and value for money:
- Transfer of services to a trust should only be on the basis of a robust options appraisal, and that the trust option should include other delivery formats such as matching delivery into an existing trust, (former Local Authority or private sector hybrid trust), or through franchising elements of Trust service delivery to the incumbent operation to rationalise support cost or to up-skill, including for example, payroll, IT, membership management, training etc.
 - Service level relationships between trusts and the parent council should be formalised around a clear performance framework.

Access to investment for developing and maintaining facilities

- 48 Whilst underinvestment in the ‘community leisure estate’ is estimated at £4.5 billion, (based on capital replacement costs), there are challenges to the availability and co-ordination of capital investment. Asset planning in leisure is frequently driven by the availability of capital funding streams, which is unlikely to be the optimum way of informing strategic facility planning. Similarly, where service planning is asset driven it relies on capital funding streams being co-ordinated in terms of availability and timing. This is not always the case currently and can result in silo driven approach to service planning.

³³ *Public Sports and Recreation Services – Making them fit for the future*, Audit Commission, 2006

- 49 There are a variety of capital investment ‘pots’ for leisure with investment opportunities being linked to PFI for leisure and culture, Building Schools for the Future (BSF), New Opportunities Fund for PE and Sport and the extended schools programme and other capital funding streams. The limited PFI pool available for leisure and other cultural projects, (£130 million for 2005-07), suggests that leverage off other capital funding streams is necessary if the investment challenge is to be met. This creates its own challenges:
- Re-providing leisure in multi-use community settings to increase access/participation, means that the commissioning base, (education – BSF, Health, Social Services and others in Joint Service Centre context), is more diverse and that leisure is often a minority interest and funding partner and therefore may have difficulty making itself heard.
 - The contractual focus of BSF and Education PFI is on accommodation provision, whereas for leisure the interface between the building, between building maintenance and capital refresh and third party income generation, is key to service delivery outcomes and value for money. Of the three leisure schemes awarded DCMS credits from the 2005-2007 allocation, one will be procured through BSF as part of wider schools/regeneration/community health schemes and will need to address developing new contractual solutions.
 - It may be challenging for District Council’s to identify opportunities for developing facilities through BSF/Education PFI in two tier areas where there is unlikely to be a developed dialogue between LEAs and District providers.
- 50 To date, only limited investment in local authority facilities has been achieved through PFI/PPP. The high cost of procuring assets through PPP/PFI is cited as a barrier to market entry for several of the large private leisure management providers with only 3 of the 5 being active in the market. Given the limited capacity in the market it could be assumed that there is similarly limited balance sheet capability to sustain multiple schemes in procurement at any one time at the current level of bidding costs. There is a clear message from the market that procurement of PPP/PFI takes too long and is too expensive, with typical costs reflected as £500,000 to £1 million on recent projects. The target cost of bidding should ideally be £200 – 300k to create an improved market response and strong deal flow. This could be achieved through ‘off the shelf’ financial and design solutions and standardisation of commercial positions and documentation.
- 51 Whilst education based sporting facilities have been the focus for recent public sector investment (78% of all expenditure on capital development of sports facilities in 2004 and £45billion planned over the next 15 years), consideration needs to be given to ensuring that barriers to community use do not prevent the full potential of these facilities being unlocked. BSF development and NOF round 2 for schools sports facilities, Sports colleges, School Sports Partnerships, distorts the market in terms of availability and demand and is segmenting the market in favour of non-specialist/add on provision or in-house. This raises issues as to who pays for out of hours community use? Should existing revenue budgets available for leisure be re-configured to support this development

where there is a duplication of usage? This would need to be planned and enforced as it may require transferring budgets from District to County Education Authorities. Further, community use of education based facilities can give rise to VAT issues for two reasons:

- When sports facilities are provided by a City Academy, voluntary aided or foundation school, the generation of third party income through community use can jeopardise its zero rating status for VAT purposes, such that the school incurs VAT on its costs. DfES funding can be secured to offset the cost of irrecoverable VAT, but this is a discretionary fix which the Academy is unable to plan for when it is making a decision to get involved in community activity.
- Capital expenditure on facilities which generate exempt income (e.g. through the BSF programme, leisure centres etc) can cause Local Authorities to exceed their 5% de minimis partial exemption position for VAT. This is most likely to affect District Councils since their 5% limit is usually set lower, Local Authorities providing leisure services in-house and those with significant expenditure on leisure facilities.

52 Alongside this the use of prudential borrowing to support leisure schemes has been perhaps sub-optimal.

53 The capability/capacity of local authority commissioners to manage complex procurements impacts on the deliverability of leisure schemes. This may be particularly challenging for Districts which are unlikely to have access to specialist project management and procurement support.

54 Whilst improving the capacity and approach of commissioners to procuring capital projects more cost effectively will reap benefits, it is unlikely, given the scope of funding available that it will be sufficient to resource the identified investment requirements for the market. In this regard therefore it will be necessary to consider:

- To what extent the government should provide additional funding for sport and leisure taking into account that the UK contribution is low relative to peer nations investment.
- To what extent private sector investment leverage might be achieved for investment either integral to leisure management arrangements or for facility re-provision or replacement. This will require a dialogue to be opened and established with private/private providers and private leisure management operators.

55 Further, in areas where resolving the investment challenge is key to delivering against ambitious participation and wider social outcomes, there is no tangible performance framework which ensures that investment delivers an associated benefit. The lack of a measurement framework for participation and other outcome measures both compromises the ability to plan and target scarce investment effectively in the first place, as well as measuring how successful it has been.

Strategic commissioning for facilities and service planning in a wider regional and national context

- 56 Both the structure of local authority provision which is focused on District Council delivery and the absence of strategic and market dialogue with private leisure providers means that commissioners are not positioned and the market is not set up to take a view on managing/influencing overarching service and facility planning across the required scale of geographical area to secure a balanced response to need. A fundamental shift in attitude by local authorities to the way in which leisure services are envisaged and delivered is therefore required if increased participation is to be achieved.
- 57 Whilst local authorities have an identified strategic planning role in PPG17 where they are encouraged to look across the piece to plan for sports and community leisure provision, private providers at the round table reported a perception that facility development by the private sector was not taken into account. At present, the lack of available performance data which benchmarks the contribution of different types of leisure provider to participation and other qualitative outcomes in a local area frustrates any evidenced integrated approach to facility planning.
- 58 Sustainability of the current structure of local authority provision is also seen as an issue where facilities are typically under-invested in, so that the level of discretionary spend does not reflect the true actual cost of optimum service provision. The key driver for many local authority leisure providers is cost reduction with no long term view of asset management in the context of business development and sustainability.
- 59 A more integrated approach by Local Authorities to facilities planning requires a shift from a response focused on delivery, to one of market management and strategic commissioning, facilitating access to community leisure provision by existing and new suppliers, growing the capacity of the existing supply chain to create a mixed economy of service offerings, and making the best use of the available investment pot. This will include:
- Individual authorities ‘owning’ the management of the market at a local level and collectively authorities owning and managing the market on a regional and national scale
 - Proactive supply chain management to diversify capacity and grow the capability and buy in of suppliers who have not been traditionally connected with the community leisure market. This would be likely to include lowering entry barriers to community and social enterprise suppliers
 - Envisaging new models for delivery, for example cross local authority boundary provision.

Summary

- 60 It is clear therefore that without fundamental change in approach which levers off options for different models of local authority provision, established and future private sector provision and the contribution made by the third sector and informal recreational activities it is unlikely that the challenging targets for increasing participation set out in Game Plan will be met.
- 61 This gives rise to the question as to what market should local authorities be in, direct delivery or strategic planning and commissioning of leisure provision in the context of local need?

Future market – potential for development

- 62 The future of the market rests upon the better coordination of public, private and voluntary sector activity and investment to improve the quality of facilities to support wider and increased participation in active sport. This will mean moving away from a fragmented leisure market to a unified, but still diverse, flexible market operating within a common framework for delivery.
- 63 This would involve local authorities shifting from a delivery to a strategic commissioning role by influencing and facilitating the current range of public/private leisure provision engaged in niche delivery to that orientated towards achieving outcomes based on increasing participation. The key will be to optimise facility provision and location, investment leverage and targeting available funding at key community programme development and market shaping activities. In considering options for service delivery, therefore, local authorities would need to divorce themselves from their delivery/asset ownership focus and address what will work best to increase participation in sport and leisure. This will include consideration of:
- What leisure opportunities exist, are performing well and have a sustainable funding structure in the local area (irrespective of whether the facilities are in public or private ownership)?
 - What leisure opportunities exist within local authority ownership? How are they performing? Can performance be improved upon within available resources or are they largely redundant?
 - Where is the unmet demand and how might this be addressed from existing or future provision?
- 64 Local Authorities will need to develop their strategic commissioning role individually and in collaboration with others, to manage the local, regional and national supply market. This will involve facilitating and influencing existing suppliers to adopt new delivery formats and encouraging new entrants to the market. Also, opportunities for direct targeting of funding at disadvantaged groups or wider usage through personal funding support, for example through a smart leisure/community card which gives access to a range of sports and recreation facilities not necessarily in local authority ownership. Thus empowering users and providing choice. New models for service delivery might be:
- Shared service operating models, which rationalise back office support to free up resources for investment in direct service provision

- High performing local authority suppliers providing services on an arms-length basis and franchising their branded models of provision to other local authorities (the private sector already operates this model effectively for LA health and fitness, providing operating equipment, operating systems, training, marketing and administrative support, e.g. direct debits)
- Private owner occupier leisure providers operating within their existing business model or to agreed targeted outputs
- Private operators involved in leisure management contracting and not-for-profit trusts taking on long-term competitive sourced concessions to run existing municipal facilities and, where appropriate ownership of sites though lease arrangements on an arms-length basis
- Growing capacity of third sector providers and in particular clubs, perhaps through releasing facilities through community right to buy to provide a sustainable revenue stream. This might include providing support for developing sustainable business models.

65 Key actions to promote contestability, market diversity and alternative models of provision to achieve more integrated delivery outcomes met through a mixed economy of providers include:

A wider inclusive policy statement and vision which includes for planning for opportunities existing in the public/private sector. This will include promoting options for alternative models of provision including encouraging and incentivising local authorities to challenge whether they should be in the business of asset management/ownership. The recent review of local authority leisure performance by the Audit Commission informs innovation and validation of options appraisals for service delivery.

Encouraging a wider consideration of options for promoting leisure outcomes which may include disaggregating leisure budgets and releasing facility ownership. This may also include consideration at what scale it is best to manage demand at or beyond the boundaries of each local authority, the regional or sub-regional level.

An approach to investment and revenue funding which supports a mixed economy of provision including:

- Pooling of existing leisure budgets to support new and replacement provision, for example aligned to community usage on education sites. Steps should also be taken to address the VAT liability which accrues to community use of facilities at Academy sites and therefore potentially constrains use
- Deregulating current ring-fenced leisure related funding, for example PFI, so that it is able to support a mixed economy of commissioning
- Capex funding awards made within a wider facilities planning framework. (The new on-line facilities planning tool, 'Active Places', being developed by Sport England, which will allow planning across boundaries taking into

account all facilities across the public and private sectors may support this approach)

- Councils unlocking the financial potential of their current leisure assets through partnerships with the private and social enterprise sectors including long-term concessions.

Development Control and Policy Planning regimes which are aligned to a wider strategic view of provision of leisure facilities provided by all market sectors. Some thought needs to be given to negotiating with developers on the development of ‘mixed use’ facilities including active leisure.

Develop a framework for needs assessment based on the availability of participation and other social outcome data linked to current provision to encourage commissioners and suppliers to develop more holistic solutions focused on community and value-for-money outcomes.

A common set of needs assessment and performance data against which current and future supply could be benchmarked to plan measure and plan provision in relation to participation, community outcomes, customer satisfaction, utilisation and value for money. (The recently launched Sport England ‘Active People’ recognises the need for better data linking identified need, intervention and outcome, but may be unlikely to be sufficiently extensive to be effective as a planning and performance measurement tool).

A common quality standard for leisure. To the extent that community programme and leisure service delivery might be devolved to private leisure providers, however, it will be necessary to consider quality regimes for ensuring that services are delivered to standard. The industry standard third party accreditation of quality is ‘QUEST’. It is not clear to what extent QUEST is acknowledged as a quality mark by people outside of the industry, however and some thought need to be given as to whether a commercial rating system needs to be developed which is understood by users and valued as a key business metric by providers).

Key to both understanding the opportunity to unlock delivery and investment potential in a mixed economy market as well as diminishing cynicism on the part of the public sector will be engaging and sustaining an active market dialogue, shaping and development. Among the issues which need to be addressed are:

- Investigating the opportunities for the current private owner occupier market (e.g. David Lloyd, Cannons, Virgin Active, Fitness First, Holmes Place) to engage with community leisure delivery outside their current niche delivery, which currently has a very different focus from “core providers” of basic services to the local authority market. This is, based around “premium” brands and includes some ‘exclusivity’ so that it would be simplistic to assume that the private sector is universally positioned and has aspirations in this direction.

- How the not for profit trust model can be adapted to be sustainable and adaptable to supporting a range of informal third sector community leisure delivery. Key to sustainability will be to address the issue of funding leakage which occurs as a result of the non-ring fencing of tax savings. It will also require governance arrangements so that they become truly independent organisations which are divorced from arms-length control. This may require a cultural shift for local authorities to envisage Trusts as one of a range of strategic deliverers of services in the local community.
- Encouraging new providers to increase the competitiveness of the market and its capacity from parallel markets (such as facilities and asset management), overseas markets in similar provision, and new players (such as those operating within the wider sports and leisure field).

Implications for a long-term strategy for local government

- 66 The challenge for community leisure services, therefore, is how policy makers, commissioners and the supply chain can orchestrate and create synergies in resources and investment to deliver against a challenging agenda of sporting and social outcomes
- 67 The current challenges and future development within this market sector have some significant implications for the development by the Department for Communities and Local Government of a long-term strategy for Local Government. This is rooted in four broad themes for the future development of Local Government including:
- Community leadership
 - Central local relations
 - Service delivery and performance framework
 - Citizen engagement and participation.
- 68 The community leadership strand of the Strategy asks some searching questions about the role of local authorities in securing the outcomes which best serve the local area and for planning and orchestrating policy and delivery models in mixed economy settings. In the context of the leisure services market there are some key challenges to Council's strategic leadership role. The maturity and complexity of the current leisure market is at the same time an opportunity and a barrier to success and requires a fundamental change to the role of Council's, shifting from a response focused on delivery, to strategic commissioning and market management.
- 69 If a mixed market approach to delivering leisure services is to be effective, in addition to delivering service efficiency and investment leverage, it must drive quality linked directly to outcomes and enhanced local accountability, citizen choice and voice. This may mean that critical issues will need to be tackled and perhaps legislated for to incentivise and support Local Authorities as strategic commissioners of leisure services. These can be summarised as follows and are expanded upon in the text which follows:
- Through a more integrated approach to facilities planning the market for leisure might develop, by moving away from the current approach which pre-dominates in community leisure provision for facility owners to also be directly involved in service delivery

- A national framework approach to planning for and delivery of community outcomes, which takes into account contributions from across the supply chain, assessed on the basis of which is best placed to provide it
- Balancing the trade-off between strategic planning and delivery which takes into account the contribution of non-directly commissioned leisure provision against the importance of local accountability and governance structures in delivering these services
- Increasing customer choice and increasing participation through opening up the leisure market to a greater number of players across the public, private and voluntary sectors
- A national approach to needs assessment which is capable of identifying inputs to outcomes. In particular, participation and social outcome data that benchmarks current performance by provider in local areas to enable planning on a more holistic basis, taking into account the contribution of different types of provision and understanding the quality and effectiveness of interventions against outcomes
- A common quality standard for leisure where it is envisaged that community programmes will be devolved to a range of providers, there will need to be some means of 'quality controlling' provision and indicating to commissioners and users the level of service they are buying into
- Taking a more holistic view of the diverse capital and revenue funding streams which contribute to investment in leisure and delivery of leisure services to achieve maximum impact against outcomes
- Developing a clearer framework of standards which can be applied across all classes of providers to secure a common platform and standard for improving service standards across the piece. This would be likely to include a needs assessment approach based on benchmarking participation and other social outcome data linked to measuring effectiveness by provider and by specific interventions.
- The need to consider whether the current structure of local government is 'fit for purpose' in supporting the strategic commissioning role
- Whether progress in Local Government commissioning capacity, greater standardisation in procurement etc can be developed and oriented towards improved supply chain management
- Improving market dialogue and market intelligence
- Considering how releasing leisure assets to community ownership might realise the opportunity to create sustainable revenue streams for third sector providers whilst contributing to addressing the investment deficit in leisure facilities
- Current level of public investment for leisure are appropriate when considering the contribution made to cross cutting outcomes such as crime.

LEADERSHIP AND STRATEGIC COMMISSIONING ROLE OF LOCAL AUTHORITIES

- 70 Moving from a role which is focused on asset ownership and delivery to one of strategic commissioning, shaping the market through engaging with current and new providers in the supply chain, requires a paradigm shift in the thinking, approach and capacity of Local Authorities. This will mean addressing how they 'move from delivery to democratically accountable leadership as a co-ordinator of service delivery'. This will include individual authorities 'owning' the market at a local level and understanding the landscape of local provision, whilst collectively authorities will need to own and manage the market on a regional and national scale. This could suggest a framework for leisure delivery which operates at both the national and local level.
- 71 Central to this challenge is the extent to which local authorities are able to plan strategically and envisage changes to traditional delivery structures, both within their own organisation, but also around co-delivery with other Councils or across a geographical area which extends beyond its democratic boundaries. Service planning in the public sector is asset focused, lacks strategic direction and is driven by replicating existing patterns of delivery. It fails to consider what the optimum range, location and management arrangements should be. It will need to recognise the full spectrum of opportunities in the local area to address need and in particular, diversify the single site provider model by encouraging a mixed economy of supply through developing alternative service delivery models such as rationalising provision across local authority boundaries, sharing resources and reflecting the contribution of private sector facilities and facilities on school sites.
- 72 The focus might be to grow capacity through either improving the cost effectiveness and extending value outcomes of existing services, (for example cross boundary leisure operation or the achieving economies of scale in back office services), or through leveraging skills and expertise, (franchising whole services or discrete areas of support, marketing, membership management, gym administration, IT, sports development etc).
- 73 Evidence suggests that lack of scale and integrated planning is more marked in two tier areas of local government.
- 74 Although the leisure market is mature and well established it fails to coordinate opportunities for synergy between sectors to improve outcomes and whilst there is a fairly diverse base across delivery models the market is not aligned to providing a mixed economy approach to leisure services.
- 75 Effective strategic commissioning will require a more pro-active dialogue with the existing and potential suppliers to understand their respective offerings, how it might contribute to identified leisure outcomes in the local area and therefore encourage investment in innovation and more effective management of deal-flow in partnering. A more constructive engagement between commissioners and suppliers than exists at present will be key to growing diversity and sustainability in the supply chain.

- 76 Supplier/commissioner forums would also assist in envisaging innovative procurement and supplier solutions as well as capturing the outcomes of debate in guidance and standardisation. The Procurement Centres of Excellence could have a role to play here.

NEEDS ASSESSMENT

- 77 Any move towards a strategic planning approach which integrates the contributions by all classes of provider in the local area, will need to be informed by a robust evidence base. Currently there is no framework for data collection on an area basis which supports the identification of need in order that it can be mapped to existing or planned supply.
- 78 A framework for collating needs assessment and performance is required against which current and future supply could be benchmarked to plan and measure provision in relation to participation, community outcomes, customer satisfaction, utilisation and value for money. (The recently launched Sport England 'Active People' recognises the need for better data linking identified need, intervention and outcome, but may be unlikely to be sufficiently extensive to be effective as a planning and performance measurement tool).
- 79 Improved area profile data for leisure is likely to permit better engagement with planning and development control regimes aligned to a wider strategic view of provision of leisure facilities in the local area and may contribute to addressing concerns expressed by private leisure operators on the exclusion of private leisure facilities from consideration under Policy Planning Guidance note, PPG17, Open Space and Sport and Recreation. Lack of needs assessment data further weakens understanding of the contribution by the range of privately provided and non-local authority provided leisure to community outcomes, which in turn erodes any ability to gain benefit from the planning system, setting policies, supplementary planning guidance and leveraging on Section 106 agreements.
- 80 Our understanding is that the Department has no presumption against development outside town centres, particularly in relation to sports facilities which have a community benefit and is further prepared to engage in discussion to clarify the issue. Redrafting of PPG6 to exclude sport and leisure provision from its policy test and recognition of the private sector within PPG17 would clarify direction for local authority planners.

UNIVERSAL QUALITY STANDARD

- 81 If leisure services are to be delivered through a mixed economy of providers, there needs to be a common and independent means of determining quality so that commissioners and users can exercise informed choice. The industry standard third party accreditation of quality is 'QUEST'. It is not clear to what extent QUEST is acknowledged as a quality mark by people outside of the industry, however and some thought need to be given as to whether a commercial rating needs to be developed which is understood by users and valued as a key business metric by providers.

STRATEGIC APPROACH TO PLANNING INVESTMENT AND RESOURCING SUPPORTING A MIXED ECONOMY OF SUPPLY

- 82 The lack of a strategic approach to facility planning is reinforced by the allocation of resources and funding, largely outside of a facility planning approach. Maximising the impact of available funding is critical given the investment challenges for the service; (an estimated £4.5b to restore the current publicly owned leisure estate to working order). A more strategic approach to investment in facility planning by Local Authority Commissioners needs to realise the opportunity to coordinate public, private and voluntary sector activity and investment. Specific actions include:
- Allocating capital funding, (PFI, NOF for PE and Sport, Extended Schools), within a wider facilities planning framework. (The new on-line facilities planning tool, 'Active Places', being developed by Sport England which will allow planning across LA boundaries taking into account all facilities across the public and private sectors may support this approach)
 - Pooling of existing budgets to support new and replacement provision, for example, aligned to community usage on education sites
 - There is also a case for de-coupling asset delivery from asset provision, where the huge cost of refurbishment cannot be reconciled. This might be through targeting funding at disadvantaged groups or wider usage through personal funding support, for example through a 'smart community card' which gives access to a range of sports and recreation facilities, not necessarily in LA ownership.
- 83 At present there is no performance framework for assessing the effectiveness of capital funding awards in terms of delivery against outcomes. This reinforces the need for needs assessment and performance data to ensure that capital investment is planned and managed to deliver additionality against outcomes.

COMMUNITY OWNERSHIP

- 84 Whether releasing leisure assets to community or third sector ownership might realise the opportunity to create sustainable revenue streams for alternative providers.

FUNDING LEISURE

- 85 There are opportunities to leverage and deploy leisure investment and resources in a more effective way, but the Government may wish to reflect whether in public investment is sufficient when compared to investment by peer nations and the contribution by leisure to wider social outcome benefits such as health, crime, education etc.

IMPACT OF THE TWO TIER STRUCTURE OF LOCAL GOVERNMENT

- 86 The recent Audit Commission study on the effectiveness of Local Authority commissioned leisure provision found that lack of service coordination and planning is more marked in two tier areas of local government. In terms of strategic planning consideration is also required as to whether the individual District Council is the most appropriate level at which to manage demand.

Potential next steps

87 From the roundtable, and conclusions that can be drawn from wider research, there are a series of actions which would work towards supporting greater diversity and integration in the supply market leading to maximising outcomes and benefit. We have set these out below to provide a starting point for discussion about how policymakers, commissioners and suppliers can address these challenges.

88 **Policy makers should consider:**

- How they might enable a national framework approach to leisure service delivery, based on an assessment of local need which takes into account contributions from across the supply chain of public, private and voluntary sector provision, assessed on the basis of which supplier is best placed to provide it. This will include supporting Council's in changing the way they work from direct provision and local commissioning mostly on single site basis, to strategic commissioning and market shaping, engaging with the whole supply chain.
- Setting in place a national approach to needs assessment which is capable of identifying inputs to outcomes to produce an area profile. In particular, participation and social outcome data which benchmarks current performance, quality and effectiveness by provider in local areas. The Carter Report has made recommendations in this regard, CPA 2005 creates an assessment framework for the cultural service block which includes leisure and the recently launched 'Active People' programme will create links between interventions and what is working well in terms of growing participation.
- Within a strategic planning approach to leisure informed by needs assessment to consider how this might be reflected in the planning policy and development control frameworks which might involve a review of the PPG 6 and PPG 17.
- Promoting discussion on alternative models of provision including encouraging and incentivising local authorities to challenge whether they should be in the business of asset ownership. This is supported by the Audit Commission which advocates that decisions on leisure provision should be supported by robust options appraisal.
- Facilitation of market dialogue between suppliers and commissioners. This will require a more proactive dialogue with existing and potential suppliers to understand their respective offerings, how it might contribute to identified leisure outcomes in the local area and therefore encourage investment in innovation and more effective management of deal-flow in partnering. A more constructive engagement between commissioners and suppliers than exists at present will be key to growing diversity and

sustainability in the supply chain. This might be achieved by facilitating discussion through the Regional Centres of Procurement Excellence.

- Facilitating or mandating a more strategic approach to investment and resourcing linked to needs assessment which maximises the impact of funding. This might include allocating capital funding within a wider facilities planning framework, pooling existing revenue budgets to support new and replacement provision, (for example community usage on education sites), and on de-coupling funding from asset provision through targeting personal funding support or outreach initiatives.
- Whether there should be a performance framework for assessing the effectiveness of capital funding awards. At present there is no means of ensuring that capital funded projects either provide additionally or deliver the outcomes envisaged.
- Whether steps should also taken to address the VAT liability which accrues to community use of education facilities and therefore potentially constrains use.
- Consider whether if leisure service delivery is devolved to a mixed economy of providers, there needs to be a common and independent means of determining quality so that commissioners and users can exercise informed choice. The industry standard third party accreditation of quality is 'QUEST'. It is not clear to what extent QUEST is acknowledged as a quality mark by people outside of the industry, however and some thought need to be given as to whether a commercial rating needs to be developed which is understood by users and valued as a key business metric by providers.
- Incentivise improvements in Local Government commissioning capacity, innovation and visioning in service delivery and greater standardisation in procurement etc can be developed and oriented towards improved supply chain management.
- Consider whether the individual Council level is appropriate to manage demand for leisure services.
- Current level of public investment for leisure are appropriate when considering the contribution made to cross cutting outcomes such as crime reduction, educational attainment and wellbeing.

89 **Commissioners should consider:**

- Challenging themselves through options appraisal informed by an assessment of local need, whether direct delivery of leisure services and ownership of assets is a business they want to be in, or there are more effective ways of providing the service. This would include alternative delivery models, (shared services with another Local Authority for example), or alternative providers across the public, private and voluntary sector.

- Identifying the mechanisms and key skills required to develop the role of local government as a strategic commissioner and market manager, perhaps through the Regional Centres for Procurement Excellence.
- Engaging in dialogue with private sector providers to improve understanding of what their contribution might be to delivering leisure outcomes through their existing or amended delivery model and leveraging investment.
- Consider how subsidised use of leisure can target, individuals or groups, (SMART card technology, the Youth Opportunity Card or GP referral), using alternative sources of supply rather than through costly asset management and direct provision which may be less effective.
- More flexible interpretation of planning guidance to support an inclusive approach to leisure strategy delivery which takes into account the contribution of all classes of leisure provision in the local area.
- The adoption of improved procurement practice across local government, with a sharper focus for procurement outcomes, process and decision making. This should include addressing how a mixed economy model of delivery can be driven by supporting flexible procurement formats which allow smaller players and social enterprise models to enter and thrive in the market.

90 **Suppliers should consider:**

- Taking more of a lead role in shaping the market, both in response to commissioning and policy development.
- Engaging with Local Authorities earlier in the commissioning cycle and supporting them in shaping innovative community and service delivery outcomes, and deliverable solutions.
- How the Trust/social enterprise model of delivery can be re-configured to become more sustainable and proactive in locally focused service delivery
- Benchmarking service performance across the best in class across the public, private and third sectors.
- Greater engagement with the third sector in innovative sub-contracting arrangements as an extension of their public sector ethos.
- Be willing to engage pro-actively in pan-sector benchmarking as the opportunity arises.

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