

Item No. 14.	Classification: Open	Date: 14 September 2021	Meeting Name: Cabinet
Report title:		Gateway 1 - Procurement Strategy Approval Insourcing the leisure service	
Wards affected:		All	
Cabinet Member:		Councillor Alice Macdonald, Equalities, Neighbourhoods and Leisure	

FOREWORD – COUNCILLOR ALICE MACDONALD – CABINET MEMBER FOR EQUALITIES, NEIGHBOURHOODS AND LEISURE

We are proud of the commitment and investment we have made in ensuring our residents have access to high quality leisure services, enabling them to live healthier lives. The Covid-19 pandemic has had a huge impact on the leisure sector in general and on the operation of the council’s leisure facilities. As we look towards the recovery we have the opportunity to think innovatively about how we deliver leisure services for our residents.

In March 2021, the council agreed a preference to bring our leisure services in-house by June 2023. This report confirms our commitment to do this, sets out progress to date and a plan for the way forward as well as the resources required for the initial mobilisation period.

This is an exciting and bold move to deliver leisure services through an in-house team and is in line with our preference for in-house services which helps ensure we put residents at the heart of everything we do.

Our immediate priority will be ensuring a seamless transition so residents continue to receive an excellent service. We will work closely with Everyone Active, partners, stakeholders and suppliers, to ensure this is the case. After this initial period, we will work to create an innovative new service fully aligned with our council priorities of tackling inequality and improving the health and wellbeing of residents.

I’d like to thank Everyone Active’s Southwark staff for their hard work and commitment throughout the pandemic and all the work they have done to deliver leisure services for our residents. This report underlines our commitment to supporting all staff and ensuring a smooth transition. An in-house leisure service will be specifically focussed on attracting and retaining local people as employees and will provide local people with additional training and development opportunities.

There is no doubt that this is an ambitious project and we are conscious of the risks that are present, which is why this report sets out a frank assessment of those risks and how we will mitigate them as a council. But this is also a hugely

exciting and innovative project. Southwark Council's leisure offer is already pioneering, providing free swim and gym and adult swimming lessons, to everyone who lives in the borough. We will also be opening a new athletics centre in Southwark Park by the end of the year and a brand new leisure centre in Canada Water by 2025.

We are committed to ensuring bringing our leisure services in house will serve our residents even better with world class leisure services and facilities for all.

RECOMMENDATIONS

That cabinet:

1. Approves the plan to bring the leisure service back in house following the recommendation of the GW0 report in March 2021.
2. Approves the immediate resource required to bring the service in house from June 2023 and the detailed delivery plan set out at Appendix 1.
3. Approves the one off mobilisation costs covering the whole mobilisation period necessary to insource the leisure service, estimated to be £2.4m, and asks the Strategic Director for Finance and Governance to make the financial provision from earmarked reserves.
4. Notes the work that has been completed so far on the preferred option to insource the leisure service when the current contract with Sport and Leisure Management Limited (operating as Everyone Active) ends in June 2023.
5. Notes the associated benefits and risks of insourcing the leisure service as detailed in paragraphs 68-77 and the mitigation measures.
6. Notes a progress report will be brought back to cabinet in Spring 2022 updating on progress with the delivery of the project plan and management of the risks identified in this report.
7. Delegates authority to the Strategic Director of Environment and Leisure, in consultation with the Strategic Director of Finance and Governance, the Cabinet Member for Equalities, Neighbourhood and Leisure, the Cabinet Member for Finance, Performance & Democracy and Cabinet Member for Transport, Parks & Sport to approve operational and resourcing decisions in the lead up to insourcing the leisure service provided that they are consistent with the principles set out in this report.

BACKGROUND INFORMATION

8. On 21 June 2016, the council entered into a seven year leisure contract with an option to extend for a period or periods of up to a further seven years at the council's discretion with Sport & Leisure Management Limited (SLM) for the management of the council's eight leisure facilities and for the operation

of the sports booking service. SLM operate under the name of Everyone Active (EA).

9. Prior to the outbreak of the COVID-19 pandemic, the leisure contract was performing well operationally but was not achieving the expected income levels. SLM had cited the proliferation of low-cost “budget” gyms in Southwark and the significant success of the council’s pioneering free swim and gym scheme as being major factors causing the financial underperformance. Both the council and SLM were in discussion at that time about the best way to address this.
10. On 20 March 2020, the Government instructed that all public leisure centres should close the following day for public health reasons in relation to the coronavirus pandemic. Since this enforced closure of the council’s leisure centres and through subsequent periods of restricted opening and operational constraints, the council has agreed a series of financial support packages with SLM to enable the leisure centres to continue to operate.
11. In October 2020, cabinet agreed to continue to contract with SLM until the scheduled end of the leisure contract in June 2023. The cabinet also gave approval to enter into negotiations and agree a contract variation with SLM which would require the council to provide further financial support to SLM until the end of the contract period (June 2023).
12. In early 2021, officers, with the support of a specialist external sport and leisure consultancy, carried out a comprehensive management options appraisal to aid the council in its decision on the future delivery of the leisure service from June 2023 onwards.
13. Following this options appraisal, the following four options were considered by Cabinet in March 2021, in the Gateway 0 paper for the delivery of the council’s leisure services:
 - 1) Renewed outsourcing of service – i.e. re-commissioning of SLM or another leisure management contractor via a competitive procurement process.
 - 2) Insourcing – i.e. transfer back to in-house management / direct delivery by the council.
 - 3) Transfer of services to a newly-created local leisure trust.
 - 4) Transfer of services to a newly-created Local Authority Controlled Company (LACC).
14. The management options appraisal concluded that, given the council’s strategic objectives for the leisure service, three options - insourcing, a further period of outsourcing and transfer of services to a new LACC - were feasible.
15. The council has a preference for in-house services wherever possible, as it enables services to be fully responsive to council priorities and provides

opportunities for close working between council departments to deliver strategic outcomes in a more innovative and joined up way.

16. The Borough Plan makes a commitment to, 'Invest in our leisure centres and ensure our residents can continue to access high quality leisure services'. The management of the leisure centres and delivery of excellent leisure services is also directly linked to the council's commitment to a 'Fairer future for all', in particular: 'We want to break down barriers that prevent people from thriving in Southwark, so that whatever your background you can live a healthy life'.
17. Further 'Southwark Stands Together' pledges include the commitment to "...work to address and prevent structural racial inequalities and structural racism within our organisation, the organisations we partner with and within the service we deliver..."
18. The flexibility of an in-house service would enable the council to redesign its services to better serve the needs of residents and to meet these commitments. This might include the provision of facilities and services that may be less commercially attractive, but which may improve opportunities for residents across the borough and target provision where it is most needed.
19. In addition, one of the key benefits typically anticipated from outsourced leisure management arrangements has been the assumed transfer of significant financial risk away from the council onto the leisure management partner. However, both prior to and since the COVID-19 pandemic, the council has been exposed to unexpected financial risks not foreseen at the time of contract award. These additional and unexpected financial risks have reduced the financial benefits normally seen through outsourcing, so further supporting the option to insource the leisure service.
20. In this context, a paper was brought to cabinet on 9 March 2021 which noted that insourcing the leisure service was the preferred option to meet the council's objectives and a recommendation was agreed to bring a Gateway 1 paper to cabinet in autumn 2021 to seek approval for the recommendation to insource the leisure service. See paragraph 1.
21. The council's primary aims and objectives for the insourcing strategy are;
 - Transferring the service as smoothly as possible for customers
 - Transferring the service as smoothly as possible for staff
 - Minimising where feasible the cost of insourcing the service
 - To give the council direct control over its leisure services.
22. The challenge of bringing this complex customer-focused and market-driven service in house cannot be underestimated and, in the first instance, the focus must be on a safe and smooth transition from the current provider to direct delivery by the council in June 2023 - with the aim of **having** no detriment to the current levels of service provision and minimum impact on staff transferring.

23. Insourcing of leisure services is an almost unparalleled approach. It demonstrates the council's full commitment and ambition to delivering the best possible leisure services for residents and represents a long term commitment. As such, it requires a carefully phased implementation approach to ensure success, with the initial focus being wholly on transferring the existing service into the council, at a time when there will also be a need for significant focus on preparing for the opening of the borough's new leisure centre at Canada Water. Adopting a measured, phased approach and pace will ensure sustainable success.
24. In the longer term, once the service has been transferred and been given sufficient time to settle, the council also wishes to address the following long term objectives:
- To ensure that the council can provide leisure facilities and services according to its priorities, maximising opportunities for residents to lead healthier lives
 - To ensure the health and wellbeing of residents is prioritised as we emerge from the pandemic, especially those from Black, Asian and Minority Ethnic communities (in accordance with the principles of Southwark Stands Together)
 - To work innovatively with key departments and divisions across the council and with partners, to provide excellent services for residents most in need
 - To minimise the immediate financial impact of the delivery of services.
 - To run a service that is fit for the future and can respond flexibly to shifting priorities
 - To increase the numbers of locally employed people who will benefit from the council's favourable terms and conditions
25. This paper sets out the process by which the leisure service will be insourced in June 2023, describes the key phases and tasks involved, identifies the anticipated benefits and risks and the resources likely to be required.

MARKET CONSIDERATIONS

26. In considering the implications of insourcing the leisure services, it is useful to consider the wider context of the local authority leisure market and leisure management arrangements across London.
27. In terms of the current local authority leisure market in London, 32 of the 33 London boroughs currently outsource leisure facility management. One borough manages an in-house service. A total of eight leisure management contractors have a presence in London; however GLL/Better (operating in 15 boroughs), Everyone Active (9 boroughs) and Fusion Lifestyle (4 boroughs) are the only organisations to have more than two contracts. Some boroughs have two operators delivering services in their boroughs.

28. Since March 2020, the leisure market has been reacting to the impact of Covid-19. Prolonged closure periods and subsequent periods of limited operations have significantly reduced income generation from local authority leisure facilities and have led to significant financial instability across the sector. The phased reopening of facilities since April 2021 means that local authority leisure facilities are currently in a phase of income recovery. Whilst initial signs are encouraging, it is not yet clear to what extent and at what rate pre-COVID income and general financial performance levels will be recovered.
29. The long term impact on the sector will depend to a great extent on the speed at which customers return to leisure centres, or choose instead to retain new habits developed during COVID, such as on-line classes and running outdoors. This is a factor regardless of the management approach taken for Southwark's leisure centres, but should be noted, as it adds additional but unavoidable risk.
30. Across the local authority leisure market the level of financial impact and the uncertainty of when that financial impact might end, means that many local authorities have started to consider radical solutions including facility closures and changes to established management arrangements. Whilst there are, to date, only a small number of examples of local authorities actually changing their management arrangements, the anticipation is that this number is likely to increase through 2021 and beyond, with reconsideration of management options, coupled with facility reviews, driven by a need to deliver affordable and sustainable services.
31. The council has been in explorative discussions with two boroughs who have both confirmed that they are considering different management arrangements for their leisure service. There may be future opportunities for the council to work together with these boroughs to achieve synergies and economies of scale, for example, by procuring gym equipment collectively.
32. The leisure sector as a whole faces an uncertain future. The impact of COVID-19 may well change the sector significantly, after a period of time which has seen the rise of budget gyms and a more competitive market. Consumer choice, and the economy, will also be significant factors. It will be necessary, therefore, for future provision to be flexible and responsive, to maximise opportunities associated with rapid change.

THE INSOURCING PROCESS

33. The current contract with EA ends in June 2023. The council is planning to insource its leisure services from June 2023 which will result in the complete transfer of all the leisure services back into the council's management.
34. In preparing for the anticipated insourcing process, preparation work has begun and a series of workstreams have already commenced:

- The delivery programme is being scoped with key functional leads from Employee Experience (HR), Finance, Legal, Procurement, IT, Facilities, Communications, Health & Safety and Public Health who will be involved in the insourcing process.
 - A new Programme Manager was recruited in July to oversee the implementation of the insourcing option
 - Work is underway to identify the teams required to deliver the insourcing programme and also to manage the in-house service.
 - The governance structure to oversee the insourcing of the leisure service has been established.
 - Specialist financial consultants, RSM, have undertaken work to identify the initial start-up and one-off costs to insource the leisure services. They have also modelled potential future income and expenditure for the insourced service, modelling options that stress test the income figures in a post-COVID environment. Further detailed financial work will be required following this cabinet decision.
35. As outlined in recommendation two, a draft programme delivery plan has been drawn up to insource and mobilise the service (See appendix 1).
36. The objectives of the programme plan are three-fold:
- To manage an orderly and amicable exit from the existing leisure management contract with EA;
 - To manage a smooth and seamless transfer of services to in-house delivery;
 - To establish the framework for the development of the leisure service to best achieve the council’s strategic outcomes.
37. With these three objectives in mind, a draft programme plan has been produced and is provided in appendix 1. This details five phases of work, as summarised in the table below.

Table 1 – Programme Plan Phases

Phase	Task	Timeframe
Phase 1	Programme Set-up and Planning	Sept – Dec 2021
Phase 2a	Mobilisation and Preparation for Transfer	Jan 2022 – May 2023
Phase 2b	Strategic Outcomes Planning	Jan 2022 – May 2023
	Commencement of Insourced Service	Jun 2023
Phase 3	Service Activation and Bedding-In	Jun 2023 – May 2024
Phase 4	Service Development and Enhancement	Jun 2024 – Dec 2025
Phase 5	Service Evaluation	Jan – Mar 2026

38. The key components and related considerations of each phase of the draft Programme Plan are set out in the paragraphs below.

Phase 1 – Programme Set-up and Planning

39. The first phase of work is essentially a planning and resource allocation stage. This will involve the establishment of the team and the continued development of associated programme documents and protocols, including the further development of a detailed programme plan and parallel programme budgets.
40. The mobilisation team will continue to involve officers from across the council, including those representing central support services and those representing services where there is scope for constructive joint-working and strategic planning (e.g. public health).
41. A key aspect of Phase 1 will be the identification of additional resources required in leisure and other services to enable the efficient and effective delivery of Phase 2a - the mobilisation and preparation for transfer.
42. At this stage, the assessment is that the existing leisure team will need additional resources to support the insourcing work. This will be covered within the 'one off' mobilisation budget.
43. Early discussions with internal colleagues indicate that additional dedicated staff resource is likely to be required, including but not limited to, areas such as Employee Experience, ICT Health and Safety, Facilities Management, and possibly finance. Examples of this are:
 - A dedicated HR specialist will be required to support the insourcing process, with key roles including recruitment of the additional senior leisure management team members, management of the TUPE transfer information, assessment of mandatory qualifications of transferring staff, coordination of consultations with trade unions and staff and management of the anticipated harmonisation process for terms and conditions;
 - Need for the HR specialist to be supported by an employment law specialist, as there will need to be extensive legal advice on the employment/TUPE issues
 - A dedicated IT officer will be required to ensure that effective IT systems are in place, with key roles including market testing for potential IT solutions and creation and implementation of a full action plan ready for go live in June 2023
 - The council will need to commission a health and safety expert, for an initial period of two years, to carry out quarterly independent audits and provide ongoing health and safety advice.
44. The detailed programme plan will need to be mindful of parallel council workstreams, including the ongoing work by Corporate FM colleagues in determining the scope of a new facilities management contract.
45. The detailed programme plan will also need to incorporate the development of a comprehensive communications plan to ensure that all relevant

stakeholders (including members, staff, service users and the wider general public) are kept informed of the programme.

Phase 2a – Mobilisation and Preparation for Transfer

46. Phase 2a of the programme plan will deal with the practicalities of managing the orderly expiry of the existing leisure management contract, the exit of EA from Southwark, the mobilisation of the council's in-house leisure service and, ultimately, the smooth transition to in-house delivery as of June 2023.
47. In undertaking this work, officers will need to carefully consider the intended future delivery model and the implications that has for the mobilisation process. At this stage, it is expected that the future delivery model ('Target Operating Model' - the primary purpose of which is to enable the application of a corporate strategy or vision to a business or operation. It is a high level representation of how a company can be best organised to more efficiently and effectively deliver and execute on the organisation's strategy.) will be based primarily on the existing delivery model deployed by EA, with the in-house management team managing the same facilities and delivering the same services. On this basis (and in the context of the TUPE transfer), it is expected that the future management team structures will largely reflect existing EA structures. A preliminary Target Operating Model will be developed by December 2021, and will be refined throughout the mobilisation period and approved in line with recommendation seven.
48. Consideration will need to be given to whether or not other services, including parks and sports pitch bookings, might usefully be incorporated into the insourcing programme.
49. The 17-month period from January 2022 to June 2023 provides sufficient time to plan and implement such a smooth transition, but the process is multi-faceted, complex and likely to involve a range of internal and external partners and stakeholders.
50. A key priority of this piece of work will be to establish and maintain positive and constructive working relationships with EA's leadership and central teams as well as the local Southwark-based management and staff teams. Council officers will need to develop an increasingly close understanding of existing management policies and practices and will be reliant on the cooperation of EA and, in due course, the provision of relevant service information. Appropriate protocols will need to be established accordingly.
51. Phase 2a will also incorporate specific and extensive workstreams dealing with a series of operational matters, including:
 - Asset management
 - To ensure that the current condition and extent of the council's facilities and equipment is fully understood (including the management of dilapidations schedules with EA), and that

- arrangements are implemented to manage the ongoing repair, maintenance and security of facilities and equipment;
- To ensure the effective management of energy and environmental matters, including the smooth transfer of utility supplies and the establishment of policies and procedures to minimise the negative environmental impact of the leisure service;
 - Staffing
 - To understand the scope and expertise of existing in-house teams and the likely transferring workforce so as to identify (and, in due course, address) needs for additional senior management resource;
 - To consult and engage with the existing EA workforce as and where appropriate so as to facilitate a smooth TUPE transfer of staff in June 2023;
 - To engage with the Unions to ensure they are kept inform with progress of the programme and consulted on matters relating to staff;
 - To plan for the implementation of relevant council HR policies and procedures, including, potentially, some harmonisation of terms and conditions;
 - To identify high priority and ongoing staff training needs and to implement a training and development plan to address these;
 - Health and safety
 - To gain an understanding of current arrangements and to ensure that, as of June 2023, all necessary management processes are in place to enable the in-house leisure service to operate safely;
 - ICT
 - To gain an understanding of the scope and functionality of existing ICT systems used in the leisure facilities and to establish a plan for replicating and/or enhancing those ICT systems in the in-house leisure service;
 - To plan and deliver a smooth transfer of relevant service and customer data (in accordance with GDPR) and to establish appropriate data management processes for post-June 2023;
 - Customer engagement
 - To consult and engage, where possible, with existing service users and stakeholders, so as to establish positive early relationships, address queries and concerns relating to the transfer of services and, ultimately, to enable a seamless transition, from the customer perspective, in June 2023;
 - Sales and Marketing
 - To develop and deliver a comprehensive suite of sales and marketing functionality so as to support the commercial performance of the in-house leisure service and enhance awareness of and accessibility to the leisure facilities and services;
 - Operations

- To develop and implement a robust quality management system comprising appropriate policies and procedures for all operational aspects of the leisure services;
 - To ensure that all staff receive appropriate training to enable them to implement policies and procedures accordingly;
 - Financial management
 - To ensure a clear understanding of the financial performance of the leisure facilities and to protect the council's financial position through the final stages of the existing leisure management contract;
 - To establish and implement appropriate policies and procedures to ensure that the financial performance of the in-house leisure service is planned for and managed appropriately.
52. It is anticipated that a key element of this phase of work will be the consideration of how the various central support services and subcontracted services currently delivered by EA and its subcontractors are best delivered in the in-house delivery model. This work will include an assessment of the capacity and capability of the council's existing central support teams to deliver required services for the in-house model. It will also consider the scope for novation of existing subcontractor arrangements and/or the procurement of new subcontractors.

Phase 2b – Strategic Outcomes Planning

53. Whilst Phase 2a will deal with the acute practicalities of the immediate service mobilisation and transition arrangements, there will also be an important piece of work for the council to reflect upon in relation to how and where the in-house leisure service can contribute positively to the delivery of the council's wider strategic outcomes. This will be crucial in manifesting some of the anticipated benefits derived from in-house delivery.
54. Phase 2b is intended to be delivered in parallel with Phase 2a, between January 2022 and May 2023, and will involve a fundamental review of what the council is aiming to achieve with its leisure service so as to inform the future shape and structure of the leisure service. This fundamental review will reflect the specific objectives and priorities established in the Borough Plan and the 'Southwark Stands Together' pledges, whilst also recognising wider local needs and the strategic objectives of relevant partners and stakeholders.
55. In particular, it is expected that the strategic outcomes planning will focus on the scope for the in-house leisure service to help to address health and other inequalities in Southwark.
56. Sport England has developed specific guidance prescribing a recommended process for strategic outcomes planning. This recommended process comprises four stages:
- Stage 1: Outcomes

- The identification of shared local strategic outcomes, taking into account cross-sector local needs and priorities and identifying how sport and physical activity can contribute to those outcomes;
 - Stage 2: Insight
 - The gaining of a clear understanding of the current situation in Southwark in respect of sport and physical activity, including identifying current inequalities, barriers to participation and opportunities for improved outcomes;
 - Stage 3: Interventions
 - The identification of how the strategic outcomes can best be delivered in a sustainable way, including consideration of the shape and scope of facilities and services and the benefits of alternative delivery models;
 - This is likely to incorporate consideration of how the proposed new leisure centre at Canada Water can contribute to the delivery of the Council's strategic outcomes;
 - Stage 4: Commitment
 - The securing of commitment from the council and other relevant stakeholders, to the delivery of the outcomes.
57. The completion of the strategic outcomes planning process through Phase 2b will be crucial in influencing, where relevant, the parallel service mobilisation work and the subsequent bedding-in and service development phases.
58. It is important to note that this work will need to be done in parallel with other elements of the programme but cannot hinder the focus on an effective transition to an in-house service where the focus must be on delivering a like-for-like service.

Phase 3 – Service Activation and Bedding-In

59. As of June 2023, the council's in-house team will assume full responsibility for the day-to-day and strategic delivery of leisure services.
60. Whilst Phases 2a and 2b of the programme plan are intended to enable a smooth transition to in-house management and a commitment to future strategic outcomes delivery respectively, the transfer to an in-house leisure service will be a complex process and a significant change for the council. It is therefore anticipated that the new in-house service will need some time to find its feet and establish operational and financial stability.
61. Accordingly, the programme plan allows for a 12-month Phase 3 – service activation and bedding-in.
62. A significant element of this phase of work will be the bedding-in of the new in-house management and staffing teams, comprising both newly-recruited and TUPE-transferred employees. The future success of the in-house leisure service is likely to rely on the development of a competent and confident

workforce with a clear strategic purpose and robust management systems. The first 12 months of in-house delivery will be a key part of this success.

63. Further, this phase of the programme plan will be needed to enable the implementation and monitoring of consistent operational management systems to ensure that the intended future service developments are built on a solid operational foundation.

Phase 4 – Service Development and Enhancement

64. Phase 4 of the programme plan commences from the start of the second year of the in-house leisure operation and marks the point at which the council should be in a position to advance the interventions and improvements identified in the strategic outcomes planning process.
65. These interventions and improvements will be determined by the strategic outcomes planning process, but might typically include facility investments, new or extended services, partnership initiatives with other stakeholders and concerted and innovative joint working with other council services.

Phase 5 – Service Evaluation

66. The transfer of the leisure services to the in-house delivery model is a significant council decision and the council will be keen to ensure that performance of the in-house service is closely monitored against the positive outcomes identified in this report.
67. The programme plan includes a fifth phase of work, towards the end of the third year of in-house operation, specifically designed to evaluate the effectiveness of the in-house model. The intention of this process would be to recognise successes and identify opportunities for improved delivery and, ultimately, improved outcomes.

THE BENEFITS OF INSOURCING THE LEISURE SERVICE

68. The council anticipates a range of benefits from transferring the leisure service to in-house delivery.

Full control

69. Insourcing will ensure that the council has direct control over all aspects of the management and operation of its leisure facilities and services.
70. An insourced leisure service will enable the council to redesign and evolve its service to better serve residents and to respond to changing local and national policies and developing council priorities.
71. The council will have the ability to manage facilities and services that are not necessarily commercially attractive, but which may maximise opportunities

for residents across the borough and hence help to address inequalities across the borough.

Integrated services

72. Insourcing provides the opportunity for the leisure service to work closely with other key council departments to deliver strategic outcomes in a more innovative and joined up way.
73. Through partnership working across the council, services can be tailored to better meet the needs of Southwark’s diverse neighbourhoods, resulting in better outcomes for residents.

In-house expertise

74. Insourcing will mean that the council is likely to develop new leisure professional expertise and additional technical capabilities which will strengthen the council as a whole and potentially provide opportunities for service improvements in other areas.

Local employment and workforce conditions

75. An in-house leisure service will be specifically focussed on attracting and retaining local people as employees and will provide local people with additional training and development opportunities.
76. The terms and conditions of existing leisure facility staff are likely to improve (particularly in respect of pension provision) and this could have a positive impact on staff morale and retention.

THE RISKS OF INSOURCING THE LEISURE SERVICE

77. The process of insourcing the Council’s leisure service is a multi-faceted and complex one. There are, accordingly, a range of risks which may arise through the process and will need to be monitored and managed in due course. Table 2 below identifies a number of potential risks, highlights the potential likelihood and impact in each case and sets out potential mitigation/control measures for each risk.

Risk	Notes	Likelihood	Potential impact	Mitigation/Control measures	Revised impact
Impact of COVID-19	Uncertainty around medium and longer-term impact of COVID pandemic on customer behaviour, participation and income levels and operational processes.	Medium	High	- close monitoring of EA business recovery in Southwark sites; - monitoring of wider sector recovery and mitigating actions; - incorporation of sensitivity analysis in detailed mobilisation	Medium

Risk	Notes	Likelihood	Potential impact	Mitigation/Control measures	Revised impact
				and operational budgets, including identification of cost mitigation measures;	
Financial performance	Uncertainty of future financial performance and exposure of council to all fluctuations in income and expenditure.	Medium	High	<ul style="list-style-type: none"> - development of detailed mobilisation and operational budgets, including identification of cost mitigation measures; - implementation of budget management and performance monitoring procedures to ensure variances to expected performance are identified and remedial actions undertaken promptly; - collaboration with other in-house leisure service teams to explore likely challenges and opportunities 	Medium
Operational performance	Scope for poor or inconsistent operational performance to impact customer satisfaction and cause reputational damage to the council.	Medium	Medium	<ul style="list-style-type: none"> - recruitment, establishment and training of appropriate leisure professionals to oversee the delivery of the service; - establishment of robust quality management systems to maximise consistency of delivery; - implementation of appropriate customer engagement systems to gauge perceptions, pre-empt problems and monitor satisfaction 	<p>Short term - medium</p> <p>Long term - low</p>

Risk	Notes	Likelihood	Potential impact	Mitigation/Control measures	Revised impact
Impact on central support services	<p>Uncertainty re scope and level of additional support likely to be required from central support services (including ICT, finance, HR, property, marketing, legal, procurement etc.).</p> <p>Uncertainty re capacity of existing teams to provide support required.</p>	High	Medium	<ul style="list-style-type: none"> - early engagement with central support teams to explore and identify challenges and opportunities; - collaboration with other in-house leisure service teams to explore likely challenges and opportunities - early incorporation of specific workstreams within programme mobilisation plan to draw up and implement appropriate action plans; - establishment of programme budget identifying relevant allowances for necessary additional resources 	Medium
Staffing – senior leisure management	Lack of relevant senior leisure management expertise in existing in-house team and/or transferring from EA	Medium	Medium	<ul style="list-style-type: none"> - early confirmation of intended management structure and identification of gaps and challenges; - implementation of appropriate recruitment and/or retention strategies to have intended management structure in place as part of programme mobilisation plan; - early proactive engagement with EA, including implementation of contractual provisions in respect of changes to staff structures 	Medium

Risk	Notes	Likelihood	Potential impact	Mitigation/Control measures	Revised impact
Staffing – retention of staff	Scope for loss of staff to other EA contracts and elsewhere prior to transfer date. Scope for disconnect with staff and hence loss of staff morale during extended mobilisation period.	High	Medium	<ul style="list-style-type: none"> - early proactive engagement with EA, including implementation of contractual provisions in respect of changes to staff structures; - implementation of proactive communication and consultation plan with existing workforce – pre- and post-transfer; - robust and comprehensive approach to management of HR elements of mobilisation and early operational phases, including allowance for appropriate additional HR resource; - development of appropriate learning and development plan for transferring and new staff 	Medium
Early contract exit	Potential for EA to fail or pursue early exit from the existing leisure management contract.	Low	High	<ul style="list-style-type: none"> - confirmation of funding agreement between EA and the council, through to June 2023; - generally positive relationship between EA and the council; - specific workstream in programme plan to engage positively with EA and actively manage relationship throughout residual contract term; - development of emergency contingency plans for 	Low

Risk	Notes	Likelihood	Potential impact	Mitigation/Control measures	Revised impact
				implementation in case of early EA exit	
Programme delays	Scope for elements of the mobilisation/transition process to be delayed with potential financial and service impact.	Medium	High	- establishment of dedicated programme team and development of detailed programme plan, with appropriate programme management resources and protocols	Medium
Failure to achieve benefits of insourcing	Potential for practicalities of service mobilisation/transition to divert focus from delivery of insourcing benefits and ultimate strategic outcomes	Medium	High	- establishment of dedicated cross-functional programme team and development of detailed project plan; - implementation of strategic outcomes planning process, as early part of programme plan, enabling the clarification of strategic priorities and the contribution that the leisure service can make to strategic outcomes; - incorporation of a service activation / bedding-in phase to enable the establishment of financial and operational stability.	Medium

FINANCIAL IMPLICATIONS OF INSOURCING THE LEISURE SERVICE

Operating the Service

78. The council-run service will operate with the existing annual net revenue budget of £2.6m. The gross budget will benefit from income generated across the sites. The level of income is currently hard to predict, due to the impact of Covid on the leisure industry. Following transfer, it may be necessary to review and rebalance service provision, to not only ensure that

services provided support council priorities, but also to ensure services are delivered within budget.

79. Historically the council has invested significant sums of its capital for the development and enhancement of existing leisure facilities and the new leisure centre in Elephant and Castle. The investment continues with the building of another new leisure centre as part of the Canada Water Regeneration scheme.
80. The council will need to continue to invest capital in its leisure facilities in order to maintain and improve upon income levels. In addition to the facility upkeep and lifecycle investment, with insourced services the council will be required to invest capital in product development and innovation to ensure the facilities remain relevant in an increasingly competitive market.
81. As an indication, leisure contractors usually invest 3 - 5% of turnover in product development and innovation, this is becoming increasingly important in the area of IT and digital markets.

Mobilisation

82. The mobilisation costs of insourcing the leisure service is estimated to be £2.4m A proportion of this resource will need to be released immediately to ensure the council has the necessary staff in place to carry out the programme of works required to bring the service in house as smoothly as possible.
83. As outlined in recommendation seven, this report seeks for authority to be delegated to the Strategic Director of Environment and Leisure to begin the immediate recruitment of the mobilisation team, if the Gateway 1 report is approved.
84. A specialist financial consultancy has supported us to identify this cost which is broken down below in table 3.
85. Changing consumer habits will continue to be reviewed as we continue to move through the mobilisation period; this may result in a review of services as we come out of the pandemic.

Table 3 – Estimated mobilisation costs

Function	Estimated cost (£000)
Mobilisation team	£270,000
External leisure advice	£75,000
Strategic Outcomes Planning Project	£70,000
ICT and digital	£1,275,000
Legal advice	£75,000
HR advice and project work, payroll configuration	£110,000

Function	Estimated cost (£000)
Procurement advice	£75,000
Training and uniforms	£70,000
Comms, marketing and branding	£130,000
Facility management and asset due diligence	£100,000
Contingency	£200,000
TOTAL	£2,450,000

Key /Non Key decisions

86. This is a key decision.

Policy Implications

87. The management of the leisure centres and delivery of excellent leisure services is directly linked to the council's commitment to a 'Fairer future for all', in particular:

The council want to break down barriers that prevent people from thriving in Southwark, so that whatever your background you can live a healthy life.

88. The refreshed Borough Plan 2020 - 22 sets out a series of commitments across eight themes:

- COVID-19 response
- Southwark Together
- A green and inclusive economy
- Climate Emergency
- Tackling health inequalities
- Homes for all
- A great start in life
- Thriving neighbourhoods

89. Leisure centre provision contributes to the delivery of these commitments. In particular, the Borough Plan states, 'Invest in our leisure centres and ensure our residents can continue to access high quality leisure services.'

90. In addition, leisure centre provision is an important part of the Active Southwark strategy which was agreed by the cabinet in April 2019. The themes of the strategy are:

- Active People – understanding the circumstances of individuals to better shape our services and offer
- Active Places – shaping our environment and facilities so that they encourage more people to be more active

- Active Communities – maximising resources and building partnerships with our communities that promote physical activity.

Next Stages of Programme Plan (Key Decisions)

Activity	Complete by:
Enter Gateway 1 decision on the Forward Plan	09/07/2021
DCRB Review Gateway 1	04/08/2021
CCRB Review Gateway 1	12/08/2021
Cabinet Member Briefing	18/08/2021
Notification of forthcoming decision - Cabinet	06/09/2021
Cabinet consideration of Gateway 1: Procurement strategy report	14/09/2021
Scrutiny Call-in period and notification of implementation of Gateway 1 decision	29/09/2021
Advertise specialist roles required to support the insourcing	04/10/2021
Specialist roles in post	01/12/2021
Implementation of programme plan (see separate plan)	
Leisure service transfer commences	20/06/2023
Service Activation and Bedding-In	Jun 2023 – May 2024
Service Development and Enhancement	Jun 2024 – Dec 2025
Service Evaluation	Jan – Mar 2026

TUPE/Pensions implications

91. The leisure service staff currently employed by EA would transfer into the council's employment on their existing pay and terms and conditions. The intention would be to harmonise the leisure service staff into relevant council pay and terms and conditions as soon as reasonably practicable after the point of insourcing.
92. Staff with contracts over three months will automatically be added to the Local Government Pension Scheme, although individuals will have the option to opt out. Casual staff will have the options to join the Local Government Pension Scheme or the NEST pension scheme (i.e. the workplace pension scheme created by government to support the automatic enrolment provisions included within the Pensions Act 2008).

Development of the tender documentation

93. N/A

Advertising the contract

94. N/A

Evaluation

95. N/A

Plans for the monitoring and management of the insourcing of the service

96. The reporting and governance of the insourcing programme will be carried out within three groups plus separate working groups;

- The Sponsor Group
- The Programme Board
- The Project Delivery Team
- Working groups (HR, Finance, IT, Public Health, Southwark Stands Together, Adult Social Care, Procurement, Marketing & Comms, Health & Safety, Facilities Management, Legal and Environmental).

97. A suite of core documents have been prepared to track the progress of the works and regulate performance reporting. These documents will provide an auditable track record of the programme. Any emergency issues will be reported to the Sponsor Group as soon as possible to ensure immediate and effective action is taken.

Community, equalities (including socio-economic) and health impacts

Community impact statement

98. As noted in paragraphs 53 – 58, the council will be undertaking strategic outcomes planning which will reflect upon how and where the in-house leisure service can contribute positively to the delivery of the council's wider strategic outcomes. This fundamental review will reflect the specific objectives and priorities established in the Borough Plan and the 'Southwark Stands Together' pledges, whilst also recognising wider local needs and the strategic objectives of relevant partners and stakeholders. In particular, it is expected that the strategic outcomes planning will focus on the scope for the in-house leisure service to help to address health and other inequalities in Southwark.

99. Potential areas of community impact would be in relation to any changes implemented based on the result of the strategic outcomes planning work. To minimise any impact on the community and residents with protected characteristics, an equalities impact assessment will be carried out if any changes to the service are proposed.

100. That said, It should be noted that at the point of transfer there will be limited impact on the community as the council plans to retain its existing leisure offer for at least one year to ensure a successful transition/ bedding in period.
101. The Equalities Impact Assessment will be updated at key milestone intervals throughout the mobilisation period. The most up to date version is available at appendix 2.

Equalities (including socio-economic) impact statement

102. The Public Services (Social Value) Act 2012 requires that the council considers, before commencing a procurement process, how wider social, economic and environmental benefits that may improve the well-being of the local area can be secured. The details of how social value will be incorporated within the insourcing of the leisure services are set out in the following paragraphs.
103. The insourcing of the leisure service will result in benefits for the local economy. One of the council's key objectives of insourcing the service is to increase the numbers of locally employed people who will benefit from the council's favourable terms and conditions.
104. The council is an officially accredited London Living Wage (LLW) Employer and is committed to ensuring that all staff, contractors and subcontractors engaged by the council to provide works or services within Southwark pay their staff at a minimum rate equivalent to the LLW rate. EA are currently also delivering on this commitment so this would continue and the council will pay London Living Wage.
105. The council does not utilise harmful zero hour contracts and is committed to employing full and part time staff as opposed to casual staff. The council know that for industry relevant reasons EA do use zero hours contracts but they aim to keep this to a minimum. The council would review this position with the aim to reducing the number of zero hours contracts further.
106. The council will continue to appoint apprentices as part of an insourced leisure service.

Health impact statement

107. The long term objectives of insourcing the leisure services outlined in paragraph 24 are directly linked to reducing health inequalities and improving the opportunities for residents to lead healthier lives through the development of a more resident focused service.
108. The process by which the leisure services are insourced does not impact on the current opportunities that residents have as the aim, in the first instance, is to provide the same service that residents currently receive.

109. Throughout the process of insourcing the leisure services, the Project Delivery Team will regularly consult with key health stakeholders such as the Adult and Social Care Team and the Public Health Team to ensure that the long term vision for the service remains closely aligned to their current policies and strategies for reducing health inequalities and providing equitable access to services for all residents.
110. In addition to this the Strategic Outcomes Planning exercise in phase 2 of the project delivery phases will also assist the council on focusing the long term delivery of the service where it is needed the most in order to meet the objectives set out in paragraph 24.

Climate change implications

111. The council's leisure providers have always been required to provide acceptable and appropriate environmental policies, required to deliver on specific performance targets for increasing recycling, reducing waste and energy consumption and expected to implement energy management plans aimed at reducing carbon emissions in line with the council's own targets.
112. With the council declaring a Climate Emergency it is expected that the requirements of an insourced service will be no different. The service will still be required to set the example of good environmental impact management and deliver on the key objectives from the Climate Emergency Action plan approved by cabinet in July 2021.

Staffing/procurement implications

113. Staff in the current leisure contract will be protected under the Transfer of Undertakings (Protection of Employment) legislation (TUPE). There will be amendments to the final number of staff until the TUPE transfer takes place. The impact of these changes on HR and payroll will be managed as part of the HR working group.
114. Ahead of the insourcing of the leisure service, there will be elements that the council will need to procure e.g. gym equipment. This will be developed as part of the procurement working group and the relevant resource required will be addressed at the time as the method of providing these elements of the service is identified.

Financial implications

115. Specialist financial consultants were commissioned to evaluate the initial start-up and one-off mobilisation costs to insource the leisure services and also the on-going costs of providing an in-house leisure service provision.
116. This process identified an initial sum of £2.4m for the start-up and mobilisation cost and these are reflected in Table 3 in paragraph 85. These costs will be incorporated within the council's 2022/23 budget setting process

with the immediate costs being incurred in 2021/22 to be reflected in the departmental revenue budget monitoring reports to cabinet.

117. The specialist financial consultants also carried out a financial modelling exercise to assess the projected expenditure and the potential future income from an in-house leisure service in a post COVID environment. Based on the assumptions used in the financial modelling for both the expenditure and income, the analysis indicate that the net cost of operating an in-house leisure services can be contained within the current £2.6m base budget available for the service.
118. However, it should be noted that it is very difficult to predict the potential future income in a post COVID environment and any changes in the assumptions currently used in the financial modelling will impact accordingly and will require careful monitoring to ensure the costs can be contained within available budgetary resources.
119. The financial modelling exercise did not include the financial impact of VAT and NNDR under an in-house provision and this will need to be explored further near the time of insourcing the service once the in-house leisure service operating model has been confirmed.

Investment implications

120. Please see concurrent from the Director of Finance and Governance.

Legal implications

121. Please see concurrent from the Director of Law and Governance.

Consultation

122. Staff - Formal engagement and consultation will take place with existing Everyone Active staff as part of the TUPE process; this has been built into the programme plan. Consultation will also take place with the relevant Trade Unions as part of this process to assist with robust check and challenge of the programme management process. The aim is to make the transition from external contract to council employee as smooth and informed as possible.
123. Internal stakeholders – relevant teams and departments such as public health, adult and social care will be part of the governance structure of the programme to insource the services. As such they will have representatives on the steering group and the Programme Management Team will have regular work shop meetings to explore the in-sourcing route and future direction of the service in more detail.
124. External stakeholders and residents – Extensive consultation with these groups will take place as part of the Strategic Outcome Planning outlined in paragraphs 53 to 58.

Other implications or issues

125. N/A

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance and Governance (EL21/054)

126. This report is requesting cabinet to approve a set of recommendations (paragraphs 1-7) to insource the leisure services.
127. The strategic director of finance and governance notes the financial implications that the work carried out by the specialist financial advisors indicate the start-up and mobilisation costs initially estimated to be approximately £2.4m.. The strategic director of finance and governance has been requested to make these resources available from earmarked reserves.
128. The strategic director of finance and governance also notes that in the absence of Target Operating Model (ToM), it is difficult to model at this stage the costs of the new service. In addition it is not possible in the current environment to establish accurately the income likely to be generated in a post Covid world. Financial advisors have reviewed the cost and income framework of the service before Covid intervened. This will help inform financial modelling of the ToM. Once that is complete, in particular, and as part of that model, the council will need detailed view of the workforce etc., support costs, equipment costs and building management standards.
129. Overall, at this time, this is proposed that through the ToM being developed that costs will be contained within an envelope of the existing Leisure Services budget provision (i.e. £2.6m per annum) plus retained income, once the service is insourced.
130. The strategic director of finance and governance acknowledges the risk in predicting the future potential income in a post COVID environment for the service and notes that this will require careful and robust monitoring to ensure the costs can be contained within available budgetary resources.
131. It is also noted that the financial modelling exercise did not include the financial impact of VAT and NNDR under an in-house provision and this will need to be explored further near the time of insourcing once the in-house leisure service operating model has been confirmed.

Head of Procurement

132. The report seeks the approval of Cabinet to bring the leisure service back in-house following the recommendation of the GW0 report in March 2021. It also seeks Cabinet's approval of the immediate resource required to bring the service in-house from June 2023. A detailed delivery plan set out at Appendix 1.

133. The report details and asks for the approval of the mobilisation costs necessary to insource the leisure service, estimated to be £2.4m as detailed in table 3, and asks the Strategic Director for Finance and Governance to make the financial provision available for this.
134. The report notes that a progress report will be brought back to cabinet in spring 2022 as well as confirming work that has been completed so far on the preferred option to insource the leisure service when the current contract with Sport and Leisure Management Limited (operating as Everyone Active) ends in June 2023.
135. The report confirms the market considerations in paragraphs 26-32, with the detailed phasing of the plan to bring the service in house from June 2023 in paragraphs 33-67 with risks set out in the table under paragraph 77.
136. The Impact Statement for Communities, Equalities and Health are set out in paragraphs 98-110 and the Climate change implications in paragraphs 111-112.

Director of Law and Governance

137. This report seeks the approval of the Cabinet to the plan to bring the leisure service back in house when the existing contract with EA expires in June 2023, approval of the associated mobilisation costs and noting/delegation of certain elements in respect of that insourcing.
138. Contract Standing Order 3.3 requires that where it is proposed to bring a service which was previously externalised back in-house, that approval of that procurement strategy is made through a gateway 1 report, after consideration of that report by DCRB and CCRB.
139. The report notes at paragraphs 113 and 91 that the leisure service staff currently employed by EA are protected and will automatically transfer under TUPE provisions into the council's employment on their existing pay and terms and conditions and that these will be harmonised with Council terms and conditions at the earliest opportunity.
140. The report further notes at paragraph 122 that the necessary formal engagement and consultation with the affected staff and their union representatives will be built into the programme plan.
141. There are no specific legal implications arising from the recommendations in this report. However in considering any recommendations the Cabinet should have regard to the council's obligations to carry out its duties in accordance with the principles of best value - to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

142. The Cabinet's attention is drawn to the Public Sector Equality duty (PSED General Duty) under the Equality Act 2010, which requires public bodies to have regard, when making decisions, to the need to eliminate discrimination, advance equality of opportunity and foster good relations between persons who share a relevant protected characteristic and those who do not share it. In addition, the Council has also chosen to include socio-economic status. The Cabinet is specifically referred to the community impact statement at paragraphs 98-101, and specifically the EIA at appendix 2 setting out the consideration that has been given to equalities issues which should be considered when approving the recommendations in this report. The PSED General duty is a continuing duty and as noted in paragraph 101 the EIA will be updated during the mobilisation period. Reference is made in the report to consultation that is intended to take place, the outcome of which will be reported to Cabinet in the progress report which will be brought back to Cabinet in Spring 2022.
143. The Director of Law and Governance and her staff will continue to provide advice to officers on any legal and governance issues arising during the programme plan phases noted in table 1.

BACKGROUND DOCUMENTS

Background Documents	Held At	Contact
Gateway 0 - Appraisal of management options for leisure centres	Leisure Team, 160 Tooley Street	Tara Quinn 07940788704
Link (please copy and paste into browser): https://moderngov.southwark.gov.uk/documents/s94286/Report%20Gateway%20-%20Appraisal%20of%20management%20options%20for%20leisure%20centres.pdf		

APPENDICES

No	Title
Appendix 1	Project Plan
Appendix 2	Equalities Impact Assessment

AUDIT TRAIL

Cabinet Member	Councillor Alice Macdonald, Equalities, Neighbourhoods and Leisure	
Lead Officer	Toni Ainge, Director of Leisure	
Report Author	Tara Quinn, Head of Parks and Leisure	
Version	Final	
Dated	2 September 2021	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Finance and Governance	Yes	Yes
Head of Procurement	Yes	Yes
Director of Law and Governance	Yes	Yes
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		2 September 2021