



PUBLIC ACCOUNTS COMMITTEE
THE STATES OF GUERNSEY

BEAU SEJOUR LEISURE CENTRE REVIEW

FINAL VERSION

NOVEMBER 2015

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Chair's Statement

The purpose of this review was to evaluate whether the processes followed in the Financial Transformation Programme's Beau Sejour Leisure Centre Project (BSLC)¹ were appropriate and resulted in the best value for money option being pursued for its future management. The Financial Transformation Programme (FTP) was, undeniably, the largest change initiative undertaken by the States of Guernsey in recent times and, as such, the Public Accounts Committee (PAC) was keen to examine elements of it in detail.

So what have we learned from this review? In simple terms, the project banked £27,000 of annual savings for the FTP, having almost certainly cost a significant amount in terms of both time and effort. However, the 2014 Accounts identify that the operational deficit at Beau Sejour has fallen significantly from £864,000 in 2009 to £550,000 in 2014. It is pleasing to see that such efficiencies have been made although it could be questioned whether these savings would have happened without this project.

On the evidence presented, the PAC is assured that the Project provided a vigorous challenge to the robustly defended management model. It is clear that all parties acted in good faith throughout this project, albeit with a heated exchange of views. However, it is disappointing that they could not work together to reach a consensus of opinion. By not doing so, significant resources were tied up over an extended period of time when they could have been better directed onto other projects which may potentially have produced greater savings.

It was interesting to discover that outsourcing was just 1 of 7 options considered in an initial report dating back to 2010 and which actually recommended an enhancement to the existing operating model, a Strategic Partnership, as the preferred option. Indeed, that report made very clear that, due to the unique circumstances in Guernsey, it would not be possible to achieve the same advantages of outsourcing as in the UK. However, this was countered by a further report in 2011 which suggested that outsourcing would be a viable alternative. It is perhaps understandable that, by this stage, the then Chief Minister stated his desire to '*once and for all*'² establish which model of managing Beau Sejour was the best option.

Given the findings of the review, it is clear that the current model is an appropriate form of management for these services at this time. The September 2014 debate in the States Assembly once again reinforced the political desire to continue to support Beau Sejour and maintain its traditional link with the Channel Islands Lottery. It is now up to the Culture & Leisure Board and its successor, the Committee *for* Education, Sport & Culture, with the support of other Boards / Committees, to clearly articulate how the public money needed to subsidise the facilities is an investment with real and quantifiable benefits to the community.

¹ Which incorporated Footes Lane facilities from September 2011 onwards

² Outsourcing of Beau Sejour Leisure Centre and Footes Lane, From the Chief Minister to the Minister of C&L, 19 December 2011

In the September 2014 debate, the Culture & Leisure Minister stated that, '*We must not lose track of the fact that we want to be able to keep this Island full of life and maintain its way of life.*'³ There is clearly a need for a collaborative, joined up approach to the health & wellbeing of this Island and Beau Sejour has a key role to play in that. It is in this context that the rationale for the continuing public subsidy should be discussed.



Deputy H.J.R. Soulsby
Chair, Public Accounts Committee

³ States of Deliberation, Hansard, Vol 3 No. 25, 26 September 2014, par 710

1. Executive Summary

Project Overview

- 1.1. The purpose of the PAC's review was to evaluate whether the processes followed in the BSLC⁴ Project were appropriate and resulted in the best value for money option being pursued for its future management.
- 1.2. The Project's Summary Opportunity Reports (SORs) (with reference C&L_A)⁵ concerned the opportunity to reduce the annual general revenue subsidy to the BSLC.⁶ The C&L_A SOR stated that the project would '*review membership/admission prices and operation at Beau Sejour and confirm its status in the public sector.*'⁷
- 1.3. It should be clearly noted that the C&L_A SOR did not question the quality of the service provision. However, the C&L_A SOR went on to say, '*what is less clear is the extent to which the current delivery model represents value for money*';⁸ the subsidy was (as at 2009) £864k.
- 1.4. The output from this initial stage of the project was the first in a sequence of reports, this one entitled '*Alternative Management Options for Beau Sejour*' (AMO Report) which looked at seven potential models. The AMO Report concluded that working in partnership with a Strategic Partner could facilitate '*indicative savings of £110k*'⁹ per annum; this to be the '*simplest and lowest risk option*'¹⁰.
- 1.5. Given the scale of the potential outsourcing savings identified in the initial appraisal, it is understood that the Transformation Executive was reluctant to discount the outsourcing option without testing the assumptions made within the AMO Report.
- 1.6. This report did, however, highlight that the transfer of staff would require some form of Transfer of Undertakings (Protection of Employment) Regulations (TUPE) to support the delivery of any outsourcing, which did not have a regulatory framework within Guernsey¹¹ and would have taken a further period of time to be developed.
- 1.7. An additional report – the Leisure Management Options Appraisal Report (LMOA Report)¹² - focused on the potential savings achievable to the States of Guernsey through a full outsourcing model and sought to ascertain the level of interest in the UK leisure outsourcing market. It states that '*.....an experienced operator could potentially achieve average annual savings over a 10-year contract term of £409,000.....*'¹³

⁴ Which incorporated Footes Lane facilities from September 2011 onwards

⁵ This linked 4 separate SORs from Phase 1 of the FSR: CL001, CL006, CL009 & VFM_A

⁶ Subsequently, this project was subsumed into the '*Subsidies and Grant*' work stream of the FTP

⁷ FSR Phase 2 – Appendix 1, p 87

⁸ FSR Phase 2 – Appendix 1, p 87

⁹ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

¹⁰ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

¹¹ At the time of writing, TUPE framework is still not present in Guernsey

¹² Which incorporated Footes Lane facilities from September 2011 onwards

¹³ Leisure Management Options Appraisal, Capita Symonds, Final Report, Sept 2011, Table 1: Outsourcing, par 4.2.3

- 1.8. Upon full consideration of this second report, the Policy Council supported exploration of the outsourcing option and authorised the commencement of a tendering process. A letter dated 19 December 2011 from the (then) Chief Minister stated; *'This will establish, once and for all, whether there is indeed scope for appointing a private contractor to run the Centre and Footes Lane.....'*¹⁴
- 1.9. The tender submissions indicated significant savings ranging from £202k - £275k. There is mention of further potential savings above and beyond these figures through the final stages of the tendering process, but there is no substantive evidence in support of this view.
- 1.10. An exercise was undertaken during the second quarter of 2012 to analyse the underlying detail in the tender proposals. This led to a fundamental disagreement over the financial assumptions. At this point in time, it was the belief of States financial officers that their concerns were not given due consideration by the external advisor and this presented a risk to the success of the project.
- 1.11. Following full consideration of these conflicting viewpoints, it was the opinion of the Project's Senior Responsible Officer (SRO) that an 'independent' review would be necessary to gain a balanced perspective of the situation. The Internal Audit Unit (IAU) agreed to undertake a *'focused, high-level documentation review'*.¹⁵ In conclusion, the IAU Report stated that, *'we are satisfied that the (financial officers) have valid grounds for disputing many – but not necessarily all – of the 15 items they have highlighted.'*¹⁶
- 1.12. Following consideration of the IAU Report, the SRO for the Project and the (new) Chief Officer of the Culture & Leisure Department (C&L), jointly wrote a briefing paper¹⁷ to Policy Council stating that, *'Against the background of just the raw financials (i.e. even without applying optimism bias or considering the cost implications of TUPE), the members of the Culture and Leisure Department Board were of a unanimous view that the facilities should **not** be outsourced.'*¹⁸
- 1.13. The SRO / Chief Officer's briefing paper did, however, put forward a revised *'Plan B'*. They identified that there may be medium to long-term savings opportunities suggesting that £145,000 could be saved through further in-house efficiencies.
- 1.14. The Policy Council met on 1 July 2013 and, following consideration of the matter, approved the recommendation of the Transformation Executive, and instructed the Chief Officer of C&L to, *'end the procurement process with immediate effect...'*. Furthermore, the Policy Council instructed that, *'C&L should commence to implement its Plan B as quickly as possible'*¹⁹

¹⁴ 'Outsourcing of Beau Sejour Leisure Centre and Footes Lane', Chief Minister, Policy Council letter to the Minister of Culture & Leisure Department, 19 December 2011

¹⁵ 'Review of Leisure Management Procurement', Internal Audit Unit, 4 June 2013, p1

¹⁶ 'Review of Leisure Management Procurement', Internal Audit Unit, 4 June 2013, par 24

¹⁷ The Outsourcing of Beau Sejour Centre and Footes Lane, Project SRO and C&L Chief Officer, 13 June 2013

¹⁸ The Outsourcing of Beau Sejour Centre and Footes Lane, Project SRO and C&L Chief Officer, 13 June 2013

¹⁹ Extract from Policy Council minutes, Item, 'The Outsourcing of Beau Sejour Leisure Centre and Footes Lane', 01 July 2013

Conclusion

- 1.15. The Review gave the PAC an important insight into the experience of implementing the FTP and has helped inform its broader work relating to it.
- 1.16. It was clear that throughout the review process a series of wide-ranging reports were undertaken. With the advantage of hindsight, it is now clear that the conclusions within the AMO Report, the initial major report, were robust.
- 1.17. It is perhaps understandable that the Policy Council wanted to ensure that the potential for outsourcing had been thoroughly pursued and determined '*once and for all*.'²⁰
- 1.18. It was also evident that significant tension developed within the Project Team during the latter stages of the project, which resulted in a fundamental disagreement as to the viability of the options for how BSLC should be managed. Undoubtedly, passions raised by this process were a reflection of both the genuine appetite for savings to be identified and a deep commitment to public service. This provides an example of how two groups of professional staff within, or supporting, one project team can fundamentally disagree on the same issue. However, perhaps more importantly, how sometimes they are unable to work together to reach a consensus of opinion.
- 1.19. The intervention of the SRO, to invite a third party for an independent opinion, can now be judged as the salient action in this project and should be considered in the future if a similar situation arises.
- 1.20. From the information that has been examined within this review, the PAC can conclude that the process provided a robust challenge to the existing model of managing BSLC, albeit that the existing Strategic Partnership could be enhanced. It is also the view of the PAC that all groups associated with this project acted in good faith throughout.
- 1.21. However, the PAC believes that the project should have been terminated earlier. This is not only due to the fact that TUPE was a major issue but also because of the significant but unquantifiable amount of staff time spent on the process.
- 1.22. The PAC acknowledges that C&L has since continued to consider potential efficiencies that could be accomplished within the existing management arrangements. The PAC notes the further efficiencies by C&L through '*Plan B*', with the most recent subsidy continuing to fall.

²⁰ 'Outsourcing of Beau Sejour Leisure Centre and Footes Lane', Chief Minister, Policy Council letter to the Minister of Culture & Leisure Department, 19 December 2011

2. Approach to the Review

- 2.1. The purpose of the PAC review was to evaluate whether the processes followed in the BSLC²¹ Project were appropriate and resulted in the best value for money option being pursued for its future management.
- 2.2. The PAC considered in more detail how the States of Guernsey, specifically the FTP's Project Team, pursued the potential outsourcing of the management of BSLC.
- 2.3. The scope of the Review²² was defined by the PAC to include the Project's Business Case, in order to analyse the financial benefits anticipated from the implementation of the project and the tendering procedure.
- 2.4. Areas that were **not** considered as part of the Review included a full assessment of the operational costs of running BSLC and the project management methodology undertaken throughout the whole lifecycle of the project.
- 2.5. Following receipt of significant documentation, a desktop exercise was undertaken to review the evidence. Interviews took place with senior officers who held key roles within the project to verify the information made available and gain further insight into the Project's issues.
- 2.6. The final draft Review Report was distributed to key contributors to establish the factual accuracy of the findings.
- 2.7. The outcome of the Review is an independent report evaluating whether an appropriate procedure was followed to determine the best value for money option for the future management arrangements for BSLC.
- 2.8. The PAC would like to formally acknowledge the support of the staff who contributed to the production of this report.

²¹ Which included the Footes Lane facilities as from September 2011 onwards

²² The full Terms of Reference can be seen in Appendix 3

3. Background to the Beau Sejour Leisure Centre Project

The Fundamental Spending Review

- 3.1. In the 2008 Budget Report²³, the States of Guernsey's Treasury & Resources Department (T&R) announced plans for a Fundamental Spending Review (FSR) to be undertaken during 2008-09 as '*part of its commitment to ensuring that public sector expenditure is better controlled and waste and inefficiency reduced*'.²⁴
- 3.2. An initial scoping exercise, finalised and delivered in July 2008 by 'Sector Projects', established a framework and a methodology for the FSR which was then used as the specification in tendering for the delivery of the Review. This resulted in the appointment of Tribal Consulting Limited (Tribal) in November 2008.²⁵
- 3.3. The key objectives for the FSR included ensuring that:
- '*Department spending plans provide for the most efficient and effective delivery of essential services*;
 - '*Departments' services (including corporate services and initiatives) are prioritised effectively and broadly in accordance with the aspirations of the Government Business Plan*;
 - '*Departments are only engaged in delivering essential services and those services that cannot or should not be provided by the private sector*';²⁶ and
 - '*To embed the mindset and approach of the spending review into a cyclical process for the States with a view to ensuring a future legacy*'.²⁷
- 3.4. The FSR Phase 1 report, published in February 2009, identified 298 developmental opportunities. The report proposed that all opportunities should be further explored as part of Phase 2 with '*the costs, benefits, risks and delivery options being fully explored in order to deliver an outline business case for each opportunity*'.²⁸
- 3.5. The FSR Phase 2 report consolidated the originally identified 298 opportunities into 107 Summary Opportunity Reports (SORs) for implementation within 7 workstreams.²⁹ It was estimated at this time that there was the potential to reduce, on a recurring basis, general revenue expenditure by £31m per annum; this equating to £70m accumulative savings over the 5 year lifecycle of the FTP.
- 3.6. Following consideration by the States Assembly in October 2009, the recommendations of the FSR Phase 2 Report were agreed by resolution and the Financial Transformation Programme (FTP) was initiated; Tribal being commissioned as consultants to support the FTP as from 1 November 2009.

²³ Billet d'État XXIII, November 2007, <http://www.gov.gg/CHttpHandler.ashx?id=4302&p=0>

²⁴ Budget Report 2008, p 26, section 4.36 <http://www.gov.gg/CHttpHandler.ashx?id=4302&p=0>

²⁵ Billet d'État XXV, October 2009, p2243, <http://www.gov.gg/CHttpHandler.ashx?id=3897&p=0>

²⁶ Budget Report 2008, p 27, section 4.39 <http://www.gov.gg/CHttpHandler.ashx?id=4302&p=0>

²⁷ The fourth objective was added following the initial scoping work by Sector Projects; Billet d'État XXV, October 2009, p2244, <http://www.gov.gg/CHttpHandler.ashx?id=3897&p=0>

²⁸ Billet d'État XXV, October 2009, p2243, <http://www.gov.gg/CHttpHandler.ashx?id=3897&p=0>

²⁹ Billet d'État XXV, October 2009, p224, <http://www.gov.gg/CHttpHandler.ashx?id=3897&p=0>

The Beau Sejour Project

3.7. One of the original SORs (with reference C&L_A)³⁰ within the ‘Value for Money’ workstream³¹ concerned the opportunity to reduce the annual general revenue subsidy to the BSLC.

3.8. The C&L_A SOR focussed on realising operational efficiencies and undertaking a strategic review of the role of BSLC. The approach, set out as key milestones in the C&L_A SOR, was to:

- *‘Conduct a detailed review of the current operating model at Beau Sejour, scrutinising current operations and reviewing the potential to reduce cost and increase income through a range of delivery models. This should incorporate an assessment of the impact of any change in the range of facilities and services provided;*
- *Design an implementation programme setting targets and establishing charters for ‘quick wins’;*
- *Implementation of proposals taking care to embed a culture of Value for Money and efficiency;*
- *Continue to foster the culture and monitor performance;*
- *Review performance against plans; and*
- *Consider future delivery models including privatisation’.*³²

3.9. The ‘Opportunity’ section of the C&L_A SOR stated that the project would ‘review membership/admission prices and operation at Beau Sejour and confirm its status in the public sector.’³³

3.10. It should be clearly noted that the C&L_A SOR did not question the quality of the service provision; indeed it was recognised that the level of service gained ‘highly commended status’ from Quest³⁴, placing Beau Sejour in the top 25% of leisure centres in the UK³⁵. However, the C&L_A SOR went on to say, ‘what is less clear is the extent to which the current delivery model represents value for money’.³⁶

3.11. The ‘Benefits’ section identifies that the general revenue subsidy was (as at 2009) approximately £750k per annum (with an additional £110k per annum subsidy from the Lottery) and that the primary benefit of the project was the ‘potential to reduce this level of subsidy’ through internal efficiencies, maximising existing income generation and exploring new income streams.³⁷

3.12. However, it was noted that any review should be undertaken ‘within the context of the socio-economic wellbeing of the Island’ and, ‘a preferred option which can

³⁰ This linked 4 separate SORs from Phase 1 of the FSR: CL001, CL006, CL009 & VFM_A

³¹ Subsequently, this project was subsumed into the ‘Subsidies and Grant’ work stream of the FTP

³² FSR Phase 2 – Appendix 1, p 88

³³ FSR Phase 2 – Appendix 1, p 87

³⁴ Whom administer the UK Quality Scheme for the Sports & Leisure industry

³⁵ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

³⁶ FSR Phase 2 – Appendix 1, p 87

³⁷ FSR Phase 2 – Appendix 1, p 87

*demonstrate an optimisation of the balance between the costs incurred by the States and the benefits received by the Island and its communities’.*³⁸ The C&L_A SOR did note that there was an inherent risk that the outcome of the review may be deemed ‘*unpalatable*’³⁹ which would greatly affect the impact of the project.

3.13. Furthermore, the C&L_A SOR noted that the primary costs were those associated with the project team. However, it did not indicate whether this would include, or exclude, the cost of internal staff.

3.14. The clearly defined aim of the project was to, ‘*Analyse the current operating model of Beau Sejour and reduce the annual subsidy provided by the States, without compromising quality of service.*’⁴⁰ The outputs were to be as follows:

- ‘*A Full Business Case baselining existing service spend, income, service provision and visitor profiles; and*
- *A set of opportunities and recommendations to improve value for money and make the operating model more efficient without compromising service quality.*’⁴¹

3.15. The overall outcomes were described in the project’s start-up pack⁴² as:

- ‘*A reduction in the annual subsidy either through increased income and customers or through more adaptable and tailored provision;*
- *An assurance that Beau Sejour provides value for money to Guernsey residents and delivers an effective service in the most efficient way; and*
- *Recommendations that will safeguard and maintain Beau Sejour’s important place in the community.*’⁴³

3.16. The output from this initial stage of the project was the first in a sequence of reports, this being entitled ‘*C&L_A – Beau Sejour Review, Alternative Management Options for Beau Sejour, Value for Money workstream, September 2010.*’ This report was written by the FTP Team in association with Leisure Republic; an independent leisure services consultancy with specialist expertise in management models within the public sector leisure industry.

³⁸ VFM_A Delivery of a states-wide value for money programme, Full Business Case, Appendix 5, p1

³⁹ FSR Phase 2 – Appendix 1, p 89

⁴⁰ VFM_A Delivery of a states-wide value for money programme, Full Business Case, Appendix 5, p1

⁴¹ VFM_A Delivery of a states-wide value for money programme, Full Business Case, Appendix 5, p3

⁴² Also known as a Project Brief

⁴³ VFM_A Delivery of a states-wide value for money programme, Full Business Case, Appendix 5, p1

4. Beau Sejour Leisure Centre Project Reports

Alternative Management Options for Beau Sejour Report (AMO Report)

4.1. The AMO Report acknowledged that the income generated by BSLC, at that point in time, was considerable for a facility of its size and catchment, but its costs were high in comparison to that of a similar UK facility.⁴⁴ It was noted that management was aware of the need for more fundamental and radical changes and had made a series of improvements to address the operational costs. The report further stated that the management acknowledged that BSLC *'has the potential to deliver significant further financial savings.'*⁴⁵

4.2. As part of the analysis it established the financial position⁴⁶ in 2009, as follows⁴⁷:

	£m	
Income Generation	3.29	
Costs	4.13	Excluding depreciation
Net Deficit	<u>0.84</u>	
Covered by:		
General Revenue	0.73	
Lottery	0.11	

4.3. The AMO Report looked at seven potential models (further details are provided within Appendix 2):

- *'Do minimum and maintain status quo;*
- *Enhance existing strategic partnership arrangements to support the in-house operation;*
- *Outsource the management and operations to a third party;*
- *Transfer the management and operations to a social enterprise;*
- *Privatisation of the service;*
- *Partner with a developer; and*
- *Establish a Public Private Partnership.'*⁴⁸

4.4. Clear criteria, both financial and non-financial, were set to appraise the options analysis as follows:

- *'Appears to offer the most certainty in delivering significant net savings;*
- *Has a reasonable chance of being implemented and succeeding;*
- *Does not involve the States taking on unmanageable risks; and, most importantly,*
- *Would ensure the ongoing viability of the Centre.'*⁴⁹

⁴⁴ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 4

⁴⁵ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

⁴⁶ Extract from the States Accounts are detailed in Appendix 1

⁴⁷ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

⁴⁸ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

⁴⁹ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 2

- 4.5. However, the AMO Report clearly articulated that, *‘Outsourcing Centre management is unlikely to deliver the same degree of financial benefits experienced by providers in the mainland UK.’*⁵⁰
- 4.6. This statement was based on the identification of a number of pertinent issues:
- The difference in the taxation system between the UK and Guernsey – identifying that the financial benefits of outsourcing in the UK was primarily due to tax savings of not-for-profit vehicles i.e. exemption from business rates and VAT (in most situations); neither of which exist in Guernsey;
 - Uniqueness of the local employment market, noting that operators in the UK can deliver savings by replacing staff with those on lower pay, which is limited in Guernsey; and
 - Uniqueness of the local housing market, which also limits the ability to replace staff with lower paid.⁵¹
- 4.7. Due to these factors, it was acknowledged that there were, *‘very different recommendations emerging than would have been the case if the Centre was located in the UK.’*⁵² The AMO Report concluded that working in partnership with a strategic partner could facilitate a reduction of the subsidy, stating that, *‘An enhanced strategic partnership arrangement has the potential to deliver the financial benefits of outsourcing without the need to change the delivery model of the Centre.’*⁵³
- 4.8. The AMO Report noted this to be the *‘simplest and lowest risk option’*⁵⁴ with *‘indicative savings of £110k’*⁵⁵ per annum.
- 4.9. The key areas that were identified for consideration over a period of 5 years were:
- *‘Adapting the activities programme and adjusting opening hours to better match capacity and resources to demand;*
 - *Introducing initiatives to increase off peak and casual usage;*
 - *A more efficient use of resources to enable overall staff numbers to be gradually reduced through natural wastage; and*
 - *Further investment in technology to allow more online and automatic sales and bookings and to install swipe card access to the facilities.’*^{56 57}
- 4.10. Given the subsequent events, it is important to look at two of the sections of the AMO Report in more detail; ‘Option B: Enhanced existing Strategic Partnership arrangements’ and ‘Option C: Outsourcing’.

⁵⁰ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

⁵¹ Summarised from C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

⁵² C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

⁵³ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

⁵⁴ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

⁵⁵ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

⁵⁶ Based on IT-enabled changes introduced to date these savings are likely to accrue over a longer time period than the others described above.

⁵⁷ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

Option B: Enhanced existing Strategic Partnership arrangements

4.11. The AMO Report defined the Strategic Partnership option as, ‘....buying in increased external specialist leisure management expertise to support the existing in-house operation.’⁵⁸ It acknowledged that such an arrangement is best suited to when the outsourcing option is deemed not financially viable but there is recognition that existing management capacity and capability could be boosted with the support of an external partner in order to deliver financial and non-financial benefits.

4.12. Given the existing arrangement with DC Leisure,⁵⁹ the AMO Report did note that the relationship could be extended to provide further strategic support.

4.13. Furthermore, it went on to state, ‘The financial benefits of the strategic partner option could potentially be significant and result in approximately a 20% reduction in the net subsidy’⁶⁰; details of which are shown below⁶¹:

(£,000s)	2011	2012	2013	2014	2015	Total
Total cost	35	20	20	10	10	95
Total benefits	57	57	58	17	17	206
<u>Total budget reduction</u>	<u>22</u>	<u>37</u>	<u>38</u>	<u>7</u>	<u>7</u>	<u>111</u>

4.14. The Report also noted that there would be ‘significant’ non-financial benefits stating that, ‘This option would allow the Centre to benchmark against UK leisure centres and continue to gather knowledge from the experience and expertise of a leisure specialist.’⁶² In addition, it was also thought that it may encourage BSLC to introduce a more radical approach to service improvements.

4.15. In conclusion, the AMO Report suggested that ‘this option is expected to result in cashable savings, as a partner can be tied into helping the States deliver continuous cashable benefits as part of the agreement,’ whilst it would also ‘foster a more commercial mindset within the Centre.’⁶³

4.16. In addition, it stated, ‘this approach will allow the States to deliver significant savings quicker than other options..... with the additional benefits of further efficiency savings being continually identified.’⁶⁴

4.17. The AMO Report recommended this option as ‘the preferred option the States pursues to the next stage.’⁶⁵

⁵⁸ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 4

⁵⁹ The States of Guernsey had a contracted advisory support function from DC Leisure, one of the UK’s leading leisure industry providers.

⁶⁰ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 4

⁶¹ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 4

⁶² C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 4

⁶³ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 4

⁶⁴ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 4

⁶⁵ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 4

Option C: Outsourcing

4.18. The AMO Report stated that, *'The traditional approach to securing savings in the management and operation of leisure centres is to outsource the function to an external specialist leisure operator, usually a private sector entity but increasingly in the UK a not-for-profit organisation or a hybrid of the two.'*⁶⁶

4.19. The AMO Report identified associated costs of the process, quoted at £50K-£80K plus additional internal costs of time of Senior Officers. It also noted that there would be further ongoing internal costs associated with the monitoring of any contract and some retained costs.⁶⁷

4.20. With regard to the financial benefits, the AMO Report stated, *'Outsourcing should in principle deliver significant financial savings; however the high risks associated with this option mean that it is doubtful that these savings could be achieved'*⁶⁸; as detailed below⁶⁹:

(£,000s)	2011	2012	2013	2014	2015	Total
Total cost	140	85	85	85	85	480
Total benefits	0	309	81	33	33	456
<u>Total budget reduction</u>	-140	224	-4	-52	-52	-24

4.21. The AMO Report went on to highlight a number of risks associated with this option, as follows;

- *'Outsourcing providers in the mainland UK are increasingly ring-fencing utilities costs'* (NB the report stated that energy tariffs at that point in time had risen 14% in 18 months);
- *'The States would continue to be responsible for the maintenance of the building'* (£95K pa at the time of the report);
- *'Limitations in the opportunity to attract staff on lower salaries'* (the report stated that typically they would expect to lower staff costs by around 20-25%);
- *'The States retaining the accountability for the performance of the Centre whilst not responsibility for operations (at least in the eyes of the public)';*
- *'Non-sport services adds an additional complexity'; and*
- *'A potential decline in service standards.'*⁷⁰

4.22. Of significant interest was reference to two specially identified further areas of concern.

⁶⁶ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 5

⁶⁷ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 5

⁶⁸ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 5

⁶⁹ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 5

⁷⁰ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 5

- 4.23. The AMO Report highlighted that outsourcing had *'never been done previously in Guernsey, and so is likely to require significant time and resource politically and operationally.'*⁷¹
- 4.24. Furthermore, it noted that the experience of Jersey with the outsourcing of 'AquaSplash' had been less than successful. *'An audit by PricewaterhouseCoopers in 2008 in Jersey identified that the original business case for outsourcing the facility was flawed, and as a result the States of Jersey has seen rising costs in the subsidy paid to the contractor over the last three years. States of Jersey Accounts for 2009 show that the subsidy paid to the contractor last year was £455,866; in 2007 the States of Jersey subsidised 'AquaSplash' by £297,000, an increase of 53% in two years.'*⁷²
- 4.25. However, the AMO Report did acknowledge that such issues could potentially be avoided through an appropriate arrangement that protected the States of Guernsey against future losses.
- 4.26. In addition, the AMO Report highlighted that the transfer of staff would require some form of Transfer of Undertakings (Protection of Employment) Regulations (TUPE), which did not have a regulatory framework within Guernsey⁷³. The report made the assumption that this framework would be in place to support the transfer.
- 4.27. In conclusion, the AMO Report stated that, *'The option of outsourcing of the management function to an external third party has the potential to offer significant savings to the States, potentially up to £456k over 5 years. However, the deliverability of this option and the potential savings are much less certain than the strategic partnership arrangements.'*⁷⁴
- 4.28. It continues, *'The transfer of existing staff to a new operator and the resolution of the management of the function and entertainment facilities would be difficult and costly to secure. It would be hard for an operator to bring in new staff on lower rates of pay and poorer terms and conditions, and to obtain housing licences for them. As a result, the States could incur additional costs of up to £480k, which would result in increased spend rather than a reduction to the operating budget.'*⁷⁵
- 4.29. The AMO Report concluded that the outsourcing option was discounted as other options were likely to deliver equivalent net savings to the overall operating budget without the risks or potential additional costs and stated that, *'We are therefore recommending that the outsourcing option is discounted at this stage as it is likely to be difficult to actually secure the potential savings that may exist.'*⁷⁶

⁷¹ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 5

⁷² C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 5

⁷³ At the time of writing, TUPE framework is still not present in Guernsey

⁷⁴ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 5

⁷⁵ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 5

⁷⁶ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 5

Leisure Management Options Appraisal Report (LMOA Report)

- 4.30. Given the scale of the potential outsourcing savings identified in the initial appraisal, it is understood that the Transformation Executive was reluctant to discount the outsourcing option without testing the assumptions made within the '*Alternative Management Options Report*'. The specific assumptions were that the level of financial benefit achievable would be significantly less than for a similar facility in the UK due to the difference in tax, employment costs and housing licencing and that, as a result, the UK market would not be interested.⁷⁷
- 4.31. Capita Symonds was duly commissioned during 2011 to produce an additional report exploring the potential options for the management of BSLC and sought to ascertain the level of interest in the UK leisure outsourcing market.
- 4.32. The resulting LMOA Report, focused on the potential savings achievable to the States of Guernsey through a full outsourcing model compared to continuing in-house management. The LMOA Report stated that these potential savings were based on the typical assumptions they would expect operators to make in bidding for the contract.⁷⁸ *(It should be noted that at this stage the Footes Lane facilities were included within scope.)*
- 4.33. In the course of their report, Capita Symonds listed what, in their view, were typically the key advantages of outsourcing this type of facility in the UK. These are summarised below:
- *'The operators take on the operating risks and responsibilities of operating the leisure service. The public sector therefore passes all these risks and responsibilities over to the operator in return for either (a) paying a guaranteed annual management fee to the operator, or (b) receiving a guaranteed annual management fee from the operator throughout the term of the contract;*
 - *All staff are typically transferred under TUPE regulations and their employment is therefore protected during the handover period;*
 - *They are specialist leisure operators, whereas the public sector is not. They are therefore able to offer leisure staff leisure career opportunities beyond the Authority's boundaries;*
 - *Contractors bring a commercial approach to the operation of leisure and culture facilities. They can bring a commercial approach to the operation of facilities that maximises income and return on investment;*
 - *Without the level of bureaucracy typical in the public sector, they can make quicker decisions to change the service;*
 - *The contractors operate in a very competitive marketplace and, as a result, offer efficient business models.*

⁷⁷ Letter to the Chair of the PAC from the Minister of Treasury & Resources, 04 June 2015.

⁷⁸ Leisure Management Options Appraisal, Capita Symonds, Final Report, Sept 2011, Table 1: Outsourcing, par 1.3.1

- *They have access to development funding at commercial lending rates and on a case by case basis are willing to invest significant amounts of funding in return for long-term contracts;*
- *They operate a large number of facilities across the UK and the back-office functions provide significant economies of scale and efficiency savings;*
- *A strong partnership approach can be developed with a contractor through a detailed output specification and contract that sets out clear roles, responsibilities and outputs for both parties; and*
- *They can undertake leisure projects that involve the construction of new/refurbished facilities potentially more efficiently than Councils that do not have specialist capability and much of the risk associated with it can be transferred to the contractor.'*⁷⁹

4.34. The main focus of the LMOA Report was to provide an indication of the likely financial savings available through outsourcing. It clearly stated Capita Symonds' belief that, following a review of revenue, costs and performance data, significant savings could be achieved via outsourcing and, *'based on the reasonable assumptions we would typically expect an experienced operator could potentially achieve average **annual savings** over a 10-year contract term of £409,000 through outsourcing.'*⁸⁰

4.35. The LMOA Report stated that, *'leisure operators will always thoroughly review the historic performance of the portfolio as part of their research into preparing a bid submission. There is a general assumption by operators - which is borne out in the leisure contracts they continue to take over from the in-house teams - that they can operate leisure facilities more efficiently and therefore less expensively.'*⁸¹

4.36. Furthermore, the authors of the LMOA Report also undertook a 'soft market testing exercise' to gauge the level of interest in the market; this focused on the 11 main operators in the UK. It is stated that all 11 operators expressed a positive interest at this stage indicating that, *'private operators and trusts are keen to operate both facilities.'*⁸²

4.37. On this basis, the LMOA Report concluded that, *'in light of the potential financial savings available through outsourcing and the strong market appetite demonstrated by the main operators for a Guernsey-based contract, we would recommend that the Transformation Executive considers this as a viable management option.'*⁸³

4.38. However, it is noted that there was an assumption that the TUPE would be addressed by the States of Guernsey in support of this conclusion.⁸⁴

⁷⁹ Leisure Management Options Appraisal, Capita Symonds, Final Report, Sept 2011, Table 1: Outsourcing, p 6

⁸⁰ Leisure Management Options Appraisal, Capita Symonds, Final Report, Sept 2011, Table 1: Outsourcing, par 4.2.3

⁸¹ Leisure Management Options Appraisal, Capita Symonds, Final Report, Sept 2011, Table 1: Outsourcing, par 4.1.1

⁸² Leisure Management Options Appraisal, Capita Symonds, Final Report, Sept 2011, Table 1: Outsourcing, par 2.4.3

⁸³ Leisure Management Options Appraisal, Capita Symonds, Final Report, Sept 2011, Table 1: Outsourcing, par 6.1.2

⁸⁴ Leisure Management Options Appraisal, Capita Symonds, Final Report, Sept 2011, Table 1: Outsourcing, par 4.2.1

5. Initial Tendering of the Outsourcing Option

The Tendering Process

- 5.1. Upon full consideration of the LMOA Report, the Policy Council supported (by majority) the recommendation of the Transformation Executive for further exploration of the outsourcing option and authorised the commencement of a tendering process.
- 5.2. A letter dated 19 December 2011 from the (then) Chief Minister stated; *'This will establish, once and for all, whether there is indeed scope for appointing a private contractor to run the Centre and Footes Lane, in a manner that delivers the key services that the States requires for the community from these facilities and at the same time reduces overall States' costs.'*⁸⁵
- 5.3. Following a Pre-Qualification stage, six operators were shortlisted and invited to tender for the contract. Of these operators, formal tenders were received from DC Leisure, Parkwood and Freedom⁸⁶. All three indicated the potential for significant savings as indicated in the table below:⁸⁷

	Beau Sejour Only	Beau Sejour and Footes Lane
Public Sector Comparison	£968,280	£1,080,648
Minus Retained costs	£105,300	£116,300
Baseline costs	£862,980	£964,348
Freedom	£606,443	£689,243
DC Leisure	£614,448	£752,881
Parkwood	£608,483	£762,167
Potential savings	£248,532 - £256,537	£202,181 - £275,105

- 5.4. There is reference to further potential savings being identified during the final tender stage. The briefing paper⁸⁸ stated that, *'total potential savings of between £388,532 and £426,537 for Beau Sejour only and £342,188 and £445,105 for Beau Sejour and Footes Lane combined could be achieved at Final Tender Stage.'*⁸⁹ However, it must be stressed that there is no substantive evidence available to support these claims.
- 5.5. An exercise was undertaken during the second quarter of 2012 to analyse the underlying detail in the tender proposals. This led to a fundamental disagreement over the financial assumptions.

⁸⁵ 'Outsourcing of Beau Sejour Leisure Centre and Footes Lane', Chief Minister, Policy Council letter to the Minister of Culture & Leisure Department, 19 December 2011

⁸⁶ The three who declined to submit a tender cited their current workloads and other potential opportunities to be the primary reasons for withdrawing from the process. Guernsey Leisure Management Procurement, Issues and Update Report, The Sports Consultancy, 15 May 2013, Section 1.0, p2

⁸⁷ Guernsey Leisure Management Procurement, Issues and Update Report, The Sports Consultancy, 15 May 2013, Section 4.0, p3

⁸⁸ Guernsey Leisure Management Procurement, Issues and Update Report, The Sports Consultancy, 15 May 2013

⁸⁹ Guernsey Leisure Management Procurement, Issues and Update Report, The Sports Consultancy, 15 May 2013, Section 5.0, p3

- 5.6. A number of areas of disagreement existed within the membership of the Project Team – most notably between the States’ financial officers within and/or supporting the Project Team and the external advisors⁹⁰ - specifically in terms of how to construct a true public sector comparison model for this project.⁹¹
- 5.7. The main areas of difference were:
- Calculation of Public Sector Comparator principles;
 - Calculation of States of Guernsey base costs; and
 - Inclusion/exclusion of relevant costs.
- 5.8. A number of versions of the financial benefits analysis were considered by members of the Project Team over a sustained period, with various income and expenditure items considered, added, removed and challenged over that time. However, much debate remained as to the validity of some of the financial assumptions contained in the final version of the report.
- 5.9. At this point in time, it was the belief of financial officers that their concerns were not given due consideration by the external advisor and this presented a risk to the success of the project should the Project Board make a decision based on the external consultant’s figures alone.

⁹⁰ Letter from the T&R Minister to the Chair of PAC, 04 June 2015

⁹¹ FTP Leisure Outsourcing Review, Leisure Outsourcing Review / Evaluation of Financial Benefits from Bids, SPFT

6. Termination of the Outsourcing Process

- 6.1. Following full consideration of these conflicting viewpoints, it was the opinion of the Project's SRO that an 'independent' review would be necessary to gain a balanced perspective of the situation.
- 6.2. The primary motivation for an intervention at this stage was to deliver an opinion on the validity of 15 items of dispute highlighted by the financial officers within or supporting the Project Team, as these items may have financial implications for the outsourcing models. The financial officers believed that these items had not been appropriately considered by the external advisor and therefore rendered financial analysis of the outsourced scenarios '*seriously flawed*'⁹². They went on to say that, '*acceptance of the financial analysis as it stands represents a high financial risk to the achievability of the savings proposed in the analysis*'.⁹³
- 6.3. Due to this ongoing difference of opinion between the two internal parties within, or supporting, the Project Team, the SRO approached the IAU to undertake an impartial review of the figures being presented on 31 May 2013.

Review of Leisure Management Procurement (IAU Report)

- 6.4. The IAU agreed to undertake a '*focused, high-level documentation review*'⁹⁴ relating to the States of Guernsey's ongoing procurement of an external specialist operator for BSLC in order to provide an independent opinion. Its Report references a discussion on 31 May 2013 that initiated the review and it was published on 4 June 2013.
- 6.5. The IAU Report states that the work was based on the following documentation⁹⁵:
- Guernsey Leisure Management Procurement, Issues and Update Report, The Sports Consultancy, 15 May 2013;
 - Analysis of The Sports Consultancy's Financial Benefits Calculations submitted, The States Project Finance Team, 31 May 2013; and
 - States of Guernsey Financial Analysis of Bids.

⁹² Guernsey Leisure Management Procurement, Appraisal of Issues & Update Report compiled by the Sports Consultancy on 15th May 2013, 31 May 2013

⁹³ Guernsey Leisure Management Procurement, Appraisal of Issues & Update Report compiled by the Sports Consultancy on 15th May 2013, 31 May 2013

⁹⁴ 'Review of Leisure Management Procurement', Internal Audit Unit, 4 June 2013, p1

⁹⁵ See appendix 5

6.6. The IAU Report focused on the 15 issues raised by financial officers; a summary of the points are listed below:

- i. **Pension costs:** agreement that staff pension costs should be included in all bids.
- ii. **Contract Manager Post:** agreement that a full-time post would be required to monitor the contract, though the need could be reviewed at regular intervals.
- iii. **Condition survey:** agreement that survey costs are valid to be included.
- iv. **Staff flexibility factor:** unable to comment due to limited information.
- v. **Pension bond:** unable to comment.
- vi. **Central support costs 2013:** agreement that these costs should be factored in but with a curtailing over time.
- vii. **Central support costs 2013 reduction:** as vi.
- viii. **Repairs and maintenance:** unable to comment due to limited information.
- ix. **Footes Lane supervisor:** agreement that if only Beau Sejour is outsourced, a supervisor would be required at Footes Lane.
- x. **Tariff risk:** agreement that energy tariff increases will be borne by the States and therefore a provision is required for these increases.
- xi. **Allow bidders flexibility to reduce utilities costs:** as x.
- xii. **Reduction in insurance premium:** questioned the validity of both sets of figures.
- xiii. **Reduced caution in final bids:** advised that not to be included.
- xiv. **Investment schemes:** unable to comment due to conflicting information.
- xv. **Relax restraints on pricing:** acknowledged that core prices remain under the control of the States and that those within the ITT (Invitation to Tender) should be consistently used.

6.7. With regard to repairs and maintenance, the IAU Report identified this as an area where, *'absolute clarity over responsibility will be key to effective governance.'*⁹⁶

6.8. In conclusion, the IAU Report stated that, *'we are satisfied that the (financial officers) have valid grounds for disputing many – but not necessarily all – of the 15 items they have highlighted.'*⁹⁷

6.9. Interestingly, the IAU Report states the need for robust contract management *'given the States' relatively immaturity in the area of active contract management, governance, risk management and control.'*⁹⁸

⁹⁶ 'Review of Leisure Management Procurement', Internal Audit Unit, 4 June 2013, par 12

⁹⁷ 'Review of Leisure Management Procurement', Internal Audit Unit, 4 June 2013, par 24

⁹⁸ 'Review of Leisure Management Procurement', Internal Audit Unit, 4 June 2013, par 6

Policy Council decision to conclude the process

- 6.10. Following consideration of the IAU Report, the SRO for the Project and the (new) Chief Officer of C&L, jointly wrote a briefing paper to Policy Council stating that, *'Against the background of just the raw financials (i.e. even without applying optimism bias or considering the cost implications of TUPE), the members of the Culture and Leisure Department Board were of a unanimous view that the facilities should **not** be outsourced.'*⁹⁹
- 6.11. The SRO / Chief Officer's briefing paper did, however, put forward a revised *'Plan B'*.
- 6.12. This identified medium to long-term savings opportunities totalling £145,000 that could be saved through further in-house efficiencies.
- 6.13. The Policy Council met on 1 July 2013 and, following consideration of the matter, approved the recommendation of the Transformation Executive, and instructed the Chief Officer of C&L to, *'end the procurement process with immediate effect and advise all interested parties accordingly.'*¹⁰⁰
- 6.14. Furthermore, the Policy Council instructed that, *'C&L should commence to implement its Plan B as quickly as possible but in doing so work towards identifying the most effective management model for States Sports and Leisure services in order for them to be increasingly moved to a more commercial footing.'*¹⁰¹

⁹⁹ The Outsourcing of Beau Sejour Centre and Footes Lane, Project SRO and C&L Chief Officer, 13 June 2013

¹⁰⁰ Extract from Policy Council minutes, Item, 'The Outsourcing of Beau Sejour Leisure Centre and Footes Lane', 01 July 2013

¹⁰¹ Extract from Policy Council minutes, Item, 'The Outsourcing of Beau Sejour Leisure Centre and Footes Lane', 01 July 2013

7. Conclusion

- 7.1. The purpose of the PAC review was to evaluate whether the processes followed in the BSLC Project were appropriate and resulted in the best value for money option being pursued for its future management.
- 7.2. The Review also gave the PAC an important insight into the experience of implementing the FTP specifically given that this project – which was a significant undertaking - had been concluded, helping inform its broader work relating to the FTP.
- 7.3. With regard to the proposed outsourcing of BSLC, it was clear that throughout the review process a series of wide-ranging reports were undertaken and briefing papers produced to explore the feasibility of the various options.
- 7.4. With the advantage of hindsight, it is now clear that the conclusions within the AMO Report, the initial major report, were robust. The AMO Report concluded that working with a Strategic Partner, *‘.....has the potential to deliver the financial benefits of outsourcing without the need to change the delivery model of the Centre.’*¹⁰²
- 7.5. The AMO Report summarised this to be the *‘simplest and lowest risk option’*¹⁰³ with the *‘indicative savings of £110k’*¹⁰⁴ per annum.
- 7.6. It is perhaps understandable that the Policy Council wanted to ensure that the potential for outsourcing had been thoroughly pursued and determined *‘once and for all.’*¹⁰⁵ However, it is less clear - given that the level of internal resource was not quantified as part of the FTP process - the level of ‘opportunity cost’ in pursuing this.
- 7.7. It was also evident that significant tension developed within the Project Team during the latter stages of the project; specifically between the financial officers representing the States of Guernsey and the external advisors. This resulted in a fundamental disagreement as to the viability of the options for how BSLC should be managed.
- 7.8. Undoubtedly, passions raised by this process were a reflection of both the genuine appetite for savings to be identified and a deep commitment to public service. On one side were the external advisors striving extremely hard to produce efficiencies within government and ultimately for the public. On the other side, the Officers within C&L, who are justifiably proud of the services they provide and committed to the model that they are delivering to serve the needs of the Guernsey public in the best way.
- 7.9. The two positions taken on the outsourcing of BSLC provides an example of not only how two groups of professional staff within or supporting one project team can

¹⁰² C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

¹⁰³ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

¹⁰⁴ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, Sept 2010, Section 1

¹⁰⁵ ‘Outsourcing of Beau Sejour Leisure Centre and Footes Lane’, Chief Minister, Policy Council letter to the Minister of Culture & Leisure Department, 19 December 2011

fundamentally disagree on the same issue, but, perhaps more importantly, how sometimes they are unable to work together to reach a consensus of opinion.

- 7.10. The intervention of the SRO to invite a third party for an independent opinion can now be judged as the salient action in this project and should be considered in the future, if a similar situation arises.
- 7.11. In addition, the assumption made in the reports that the legislative framework for TUPE would be available in a timely manner, to support the transfer of staff, proved to be an ongoing significant risk within the Project and had major implications to the realistic deliverability. This significant barrier to the project's successful delivery would indicate that earlier consideration to cease the project may have been advantageous.
- 7.12. From the information that has been examined within this review, the PAC can conclude that the process provided a robust challenge to the existing model of managing BSLC, albeit that the existing Strategic Partnership could be enhanced.
- 7.13. It is the view of the PAC that all groups associated with this project acted in good faith throughout. However, it believes that the project should have been terminated earlier. This is not only due to the fact that TUPE was a major issue, but also because of the significant, but unquantifiable, amount of staff time spent on the process.
- 7.14. The PAC acknowledges that C&L has since continued to consider potential efficiencies that could be accomplished within the existing management arrangements. The PAC notes the further efficiencies by C&L through '*Plan B*', with the most recent subsidy continuing to fall.
- 7.15. Furthermore, whilst the wider benefits to the community (financial and non-financial) of the subsidy are not within scope of this Review, a process to quantify the investment return to society as a whole may further evidence the value for money offered by BSLC. This would be encouraged in any future review of the facilities.

Appendices

Appendix 1 – Summary of related States Report

There have been two significant States Policy Letters relating to this Review; firstly, the ‘Channel Islands Lottery – Administration arrangements, forfeited prize accounts and 2011-2013 Reports and Accounts’, September 2014¹⁰⁶ and, secondly, the ‘States of Guernsey 2014 Accounts’, July 2015.¹⁰⁷

Channel Island Lottery

In September 2014, the States Assembly debated revisions to the proceeds from the Channel Islands Lottery. The report notes that, ‘Efforts to improve the performance of the Channel Islands Lottery and to increase efficiencies at Beau Sejour have, however, generated the potential for lottery proceeds to exceed the operating deficit of the Centre in the future.’¹⁰⁸

The Report went on to state that ‘The (C&L) Department wishes to ensure that the intrinsic relationship between Lottery proceeds and the Beau Sejour Leisure Centre is upheld.’¹⁰⁹

Following debate, it was agreed by resolution, ‘To confirm the annual proceeds of the Channel Islands Lottery, aside from the annual Christmas Draw, continue to be transferred to the Beau Sejour Centre up to the level of the Centre’s operating deficit for that same calendar year.’¹¹⁰

States of Guernsey 2014 Accounts:

The States of Guernsey 2014 Accounts clarifies that the operating deficit for BSLC has decreased to £550k (with Footes Lane down to £58k) for that calendar year.

Due to dramatic increases in sales within the Lottery source, the potential subsidy from this source, as predicted in the above mentioned Report, has also increased.

As such, the subsidy available from the Lottery provides sufficient level of funding to entirely cover the deficit of BSLC; reducing the level of subsidy required from the General Revenue fund. This is shown in the diagram on the following page:

¹⁰⁶ Billet d’État, September 2014 <http://www.gov.gg/CHttpHandler.ashx?id=90590&p=0>

¹⁰⁷ Billet d’État, July 2015 <http://www.gov.gg/CHttpHandler.ashx?id=96602&p=0>

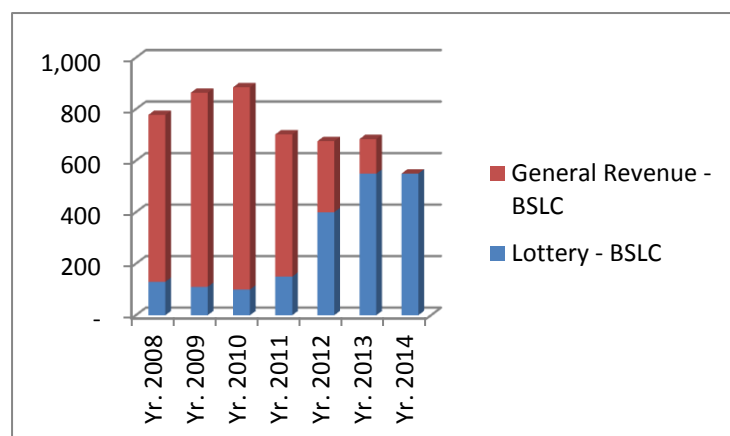
¹⁰⁸ Billet d’État, September 2014 <http://www.gov.gg/CHttpHandler.ashx?id=90590&p=0>, par 1.4

¹⁰⁹ Billet d’État, September 2014 <http://www.gov.gg/CHttpHandler.ashx?id=90590&p=0>, par 3.4.2

¹¹⁰ Billet d’État, September 2014 <http://www.gov.gg/CHttpHandler.ashx?id=90590&p=0>, Section 12 (ii)

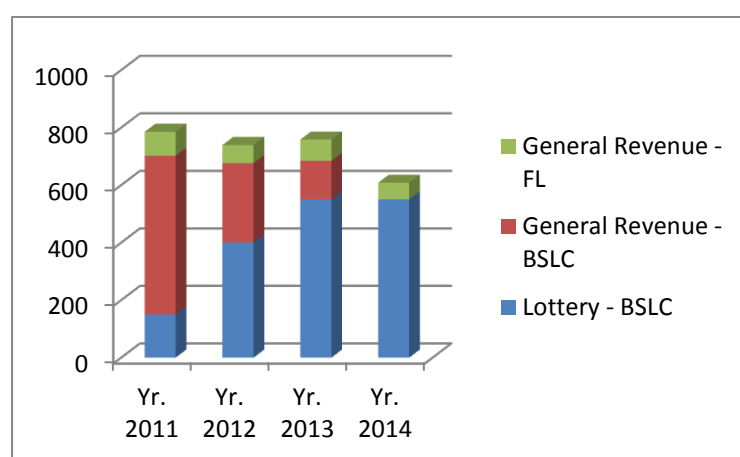
Subsidy to Beau Sejour Leisure Centre 2008 – 2014:

BSLC	Yr. 2008	Yr. 2009	Yr. 2010	Yr. 2011	Yr. 2012	Yr. 2013 ¹¹¹	Yr. 2014
Lottery	130	110	100	150	400	550	550
General Revenue	648	754	785	552	276	134	0
Total Subsidy (actual)	778	864	885	702	676	684	550



Subsidy to Beau Sejour Leisure Centre and Footes Lane facilities 2011 – 2014:

Source	Yr. 2011	Yr. 2012	Yr. 2013 ¹¹²	Yr. 2014
Lottery	150	400	550	550
General Revenue - BSLC	552	276	134	0
General Revenue - FL	83	63	74	58
Total Subsidy (actual)	785	739	758	608



¹¹¹ The subsidy for 2013 exclude the one-off costs incurred during 2013 for Voluntary Severance as detailed within the 2014 States Accounts.

¹¹² The subsidy for 2013 exclude the one-off costs incurred during 2013 for Voluntary Severance as detailed within the 2014 States Accounts.

Additional comments:

The recovery ratio (income as a percentage of expenditure) was reported within the 2008, 2009 and 2010 States Accounts¹¹³ and within the 2010 Accounts there is reference to a yearly target and 5 year average of 80.0%¹¹⁴.

The year-on-year trend for BSLC from 2008-2013 appears consistent with very little variance. Between 2008 - 2012, the 5-year average target for BSLC was achieved whilst the average from 2009–2013 fell very slightly below to 79.8% (which could be seen as not material).

The substantive point is that there has consistently been a 4:1 ratio of ‘*user pays*’ against ‘*subsidy*’ i.e. for every £1 spent operating BSLC, 80p is recouped directly via paying customers. As such, the subsidy represented c20% of the costs of the facilities.

BSLC Recovery Ratio (%)

Yr. 2008	Yr. 2009	Yr. 2010	Yr. 2011	Yr. 2012	Yr. 2013
79.0	79.6	79.2	81.1	81.1	78.2
5 Year Averages				80.0	79.8

BSLC & FL Recovery Ratio (%)

Yr. 2011	Yr. 2012	Yr. 2013
81.1	81.1	78.2

The States Accounts of 2009 and 2010 included a set of Statements of Financial Position (Profit and Loss and a Balance Sheet, including a breakdown of tangible assets) for BSLC. The reintroduction of the figures within the States of Guernsey Accounts, whilst not directly changing the performance management of Beau Sejour, could provide an additional level of transparency. The C&L Minister confirmed in September 2014 that they would be shown separately in the States Accounts¹¹⁵ which the Committee looks forward to seeing in future Accounts.

Furthermore, whilst the wider benefits to the community (financial and non-financial) of the subsidy – albeit from the Lottery - are not within scope of this Review; a process to quantify the investment return to society as a whole may further evidence the value for money offered by Beau Sejour and Footes Lane facilities.

¹¹³ For BSLC only. Specific data for FL considered for 3 years only therefore not included within the 5 year average

¹¹⁴ 2010 States Accounts, p 56

¹¹⁵ States of Deliberation, Hansard, Vol 3 No. 25, 26 September 2014, par 650

Appendix 2 – Beau Sejour Option Appraisal Summary¹¹⁶

Option	Summary of findings
'Do minimum'	<ul style="list-style-type: none"> ■ This option would not result in significant savings or improvements on the current model beyond those realised in 2010 to date. ■ Beau Sejour would miss out on closer working and guidance from a strategic partner. ■ This option was therefore discounted.
Enhance Strategic Partnership	<ul style="list-style-type: none"> ■ Beau Sejour already benefits from a 10 year close working relationship with specialist leisure partner, DC Leisure. ■ This option would develop and further enhance strategic partnership arrangements at Beau Sejour, resulting in opportunities for efficiencies and continuous improvement. ■ There are already opportunities in the pipeline that could deliver savings, such as roll out of self-service and online bookings. ■ Allows the Centre to benchmark against UK centres and continue to gather knowledge from the experience and expertise of a national leisure operator / leisure specialist. ■ This is therefore the recommended option.
Outsource	<ul style="list-style-type: none"> ■ Suppliers are unlikely to want to take on above average staff costs (e.g. salaries and pensions), which is likely to limit the number of bidders. ■ Barriers to entry in securing housing licences for any staff brought in from overseas will also discourage suppliers from bidding, or result in a contract which does not significantly reduce the cost of service below levels the States currently experiences. ■ As outsourcing has not been done before in Guernsey, significant political and operational resource will be required to set up an outsourcing arrangement. ■ Issues around the division of the Centre between non-sport and sport facilities, the inclusion of the Ron Short Centre, as well as whether the existing catering contract would be taken on by an outsourcing provider will add additional time and complexity into the procurement process. ■ The States would not be protected from rising energy costs, as service providers typically ring-fence these costs in contracts. ■ Other examples of offshore outsourcing in the Channel Islands (Serco at Aqua Splash in Jersey) have seen increases in the cost of providing the service. ■ The benefits to Beau Sejour as a result of outsourcing are unlikely to be more significant than those from having a strategic partner in

¹¹⁶ C&L_A – Beau Sejour Review, *Alternative Management Options for Beau Sejour*, Value for Money workstream, September 2010,

	<p>comparison to the extra effort required to set up the arrangement.</p> <ul style="list-style-type: none"> ■ This option was therefore discounted.
Social Enterprise	<ul style="list-style-type: none"> ■ The financial benefits typically experienced with setting up a Trust in the UK (i.e. business rates and VAT savings) cannot be realised in Guernsey. This means that the overall financial benefits of this option are limited. ■ There is a risk that the community will not be able to provide effective management expertise for the Centre, which will drive costs up further and result in a lower quality of service to residents. ■ There are risks that the community will not want to take on the responsibility of executive management of the Centre. ■ This option was therefore discounted.
Privatisation	<ul style="list-style-type: none"> ■ Potential buyers of the Centre are likely to be limited as the Centre makes a loss on current operations, does not require further capital investment as it has been recently renovated, and has planning restrictions on the ability to enhance the site further. ■ This option is seen as politically and socially unacceptable, as it would remove the only 'pay and play' leisure facility on the island, as well as the only public facility. This will compromise the policies of the Leisure Services Strategy 2008 – 2012. ■ There are no known examples of where a UK public leisure centre has been successfully sold to a private operator in the UK, which enhances the risks of this option being successful. ■ This option was therefore discounted.
Partner with a developer	<ul style="list-style-type: none"> ■ The States does not require capital investment for Beau Sejour, as the site was renovated in 2003. This means there is limited need for the benefits that a developer could provide. ■ Additional restrictions to the ability to develop the site further – cliff location, restrictions under the planning law – are likely to discourage interest. ■ This option was therefore discounted.
PPP	<ul style="list-style-type: none"> ■ As with the developer option, there is no clear need for significant capital investment in the Centre. ■ As with the outsourcing option, there are high barriers to entry for an experienced private operator of leisure centres, as well as high lead times into establishing an arrangement as it has never been done before. ■ As with the privatisation option, restrictions to the ability to develop the site are likely to discourage private investors. ■ This option was therefore discounted.

Appendix 3 – Terms of Reference¹¹⁷

Overview

The Public Accounts Committee will consider the approach by which the Culture & Leisure Department undertook the tendering of Beau Sejour Leisure Centre (including the Footes Lane facilities). The review will evaluate the business case and the tendering procedure, with a clear focus on establishing whether these processes culminated in the 'best value for money' option.

Review scope

The Panel will consider the following areas as part of its review:

- The project's business case, in order to analyse the financial benefits anticipated in the implementation of the project and the costs (including staff / officer time) associated with the project delivery; and
- The tendering procedure and evaluation criteria, to ensure that the decision making followed due process.

Outcome

The outcome will be an independent report evaluating whether an appropriate procedure was followed, to determine the 'best value for money' option for the future management arrangements for Beau Sejour Leisure Centre and Footes Lane facilities.

Out of Scope

The following areas will **not** be considered as part of the Review:

- A full assessment of the operational running of Beau Sejour Leisure Centre and Footes Lane facilities.
- The management methodology undertaken throughout the whole lifecycle of the project; and
- Any political / policy consideration in the decision making process.

¹¹⁷ As ratified by the Public Accounts Committee, December 2014 meeting

Appendix 4 – Timeline of Events

Date	Event
<u>2009</u>	
27 October	'Fundamental Spending Review: Phase 2 Report' debated within the States Assembly and a resolution is forthcoming to initiate the FTP. Within the FSR Annex is project 'C&L_A' with a defined opportunity to, <i>'Review membership/admission prices and operation at Beau Sejour and confirm its status in the public sector.'</i>
<u>2010</u>	
Q1	'VFM_A – Delivery of a States-wide value for money programme Full Business Case' includes in Appendix 5, BSLC Project C&L_A Start-up pack, which initiates the project.
Q3/4	'Alternative Management Options for Beau Sejour' report drafted by the FTP Team in association with Leisure Republic
<u>2011</u>	
2 February	Transformation Executive
March	Delivery Plan – Tribal / SOG
September	Capita Symonds Final Report – options appraisal
28 September	C&L Dept. response
5 October	Transformation Executive
2 November	Transformation Executive
19 December	Policy Council letter confirming launch of the outsourcing project
<u>2012</u>	
23 February	Project Launch meeting
21 March	Project Board Meeting
28 March	Project Board Meeting
27 April	Project Board Meeting
24 May	Project Board Meeting
5 September	Project Board Meeting
20 September	Project Board Meeting
9 November	Project Board Meeting
7 December	Project Board Meeting

2013

8 February	Project Board Meeting
14 March	'Evaluation of Financial Benefits from Bids' report, States Project Finance Team (SPFT)
19 April	'Review of figures compiled report, SPFT
1 May	Conference Call – members of the SPFT and the Sports Consultancy
7 May	'Appraisal of latest public sector comparator figures' report, SPFT
14 May	Project Team meeting – including The Sports Consultancy and States of Guernsey representatives
15 May	Sports Consultancy Report published
20 May	Response to Report received from the Sports Consultancy titled Guernsey Leisure Management Procurement, Issues and Update Report, SPFT
31 May	'Appraisal of Issues and Update compiled by the sports Consultancy on 15 May' report, SPFT
3 June	'Explanation of layout and content of financial Business Case as compiled by States of Guernsey Accountants' report, SPFT
4 June	'Review of Leisure Management Procurement', IAU
5 June	Project Board Meeting
13 June	'The outsourcing of Beau Sejour Centre and Footes Lane', Project SRO and C&L Department Chief Officer
1 July	Policy council Meeting – confirmation to cease tendering process and go with 'Plan B'.
7 August	Exception Report – reduction of savings

Appendix 5 – Documents reviewed

Document Title	Version (if applicable)
Billet d'État XXV 2009 (The Treasury and Resource Department – Fundamental Spending Review)	Published ¹¹⁸
Fundamental Spending Review: Phase 2, July 2009, States of Guernsey / Tribal	Published ¹¹⁹
Fundamental Spending Review: Phase 2 – Annex p17, July 2009, Tribal	Published ¹²⁰
Fundamental Spending Review: Phase 2 – Appendix 1, p87-93, 'C&L_A Summary Opportunity Report'	Version 1.2
VFM_A – Delivery of a States-wide value for money programme Full Business Case, Appendix 5: C&L_A start-up pack, Tribal	Final / Internal Report
'C&L_A – Beau Sejour Review: Alternative Options for Beau Sejour', Value for Money Workstream, Financial Transformation (in conjunction with Leisure Republic), September 2010	Final / Internal Report
Review of Beau Sejour (C&L_A), Delivery Plan, Tribal, March 2011	Draft / Internal Report
Leisure Management Options Appraisal, Capita Symonds, September 2011	Final / Internal Report
Leisure Management Outsourcing Review – Review of Beau Sejour Centre (C&L_A), From Chief Officer C&L to the Transformation Executive, 28 September 2011	Internal Memorandum
Leisure Management Outsourcing Review – Review of Beau Sejour Centre (C&L_A), From Chief Officer C&L to the Transformation Executive, 29 September 2011	Internal Memorandum
Outsourcing of Beau Sejour Leisure Centre and Footes Lane, From the Chief Minister to the Minister of C&L, 19 December 2011	Ministerial Letter
FTP Leisure Outsourcing Review, Evaluation of Financial Benefits from Bids, Senior Finance Manager, C&L, 14 March 2013	Internal Report
Leisure Outsourcing Review, Review of Figures compiled by the Sports Consultancy, Senior Finance Manager, C&L & Finance Manager, PSD, 19 April 2014	Internal Report
Leisure Outsourcing Review, Appraisal of latest Public Sector Comparator Figures released by the Sports Consultancy, Senior Finance Manager, C&L, 07 May 2013	Internal Report

¹¹⁸ <http://www.gov.gg/CHttpHandler.ashx?id=3897&p=0>

¹¹⁹ <http://www.gov.gg/CHttpHandler.ashx?id=4390&p=0>

¹²⁰ <http://www.gov.gg/CHttpHandler.ashx?id=4391&p=0>

Guernsey Leisure Management Procurement, Issues and Update Report, The Sports Consultancy, 15 May 2013	Internal Report
Response to report received from the Sports Consultancy titled Guernsey Leisure Management Procurement, Issues and Update Report, Senior Finance Manager, C&L, 20 May 2013	Internal Report
Guernsey Leisure Management Procurement, Explanation of layout and content of financial Business Case as complied by the states of Guernsey Accountants, Senior Finance Manager, C&L, 3 June 2013	Internal Report
Guernsey Leisure Management Procurement, Appraisal of issues and update complied by the Sports Consultancy on 15 May 2013, C&L & Finance Manager, PSD, 31 May 2013	Internal Report
Review of Leisure Management Procurement, Internal Audit Unit, 4 June 2013	Internal Report
The Outsourcing of beau Sejour Centre and Footes Lane, Chief Officer, PSD and Chief Officer, C&L, 13 June 2013	Internal Report
Policy Council Action Sheet extract 1 July 2013	Internal e-mail
Billet d'État 'Report and Accounts', June 2009 - States of Guernsey Accounts 2008	Published ¹²¹
Billet d'État May 2010 'States of Guernsey Accounts 2009	Published ¹²²
Billet d'État IX, May 2011, States of Guernsey Accounts 2010	Published ¹²³
Billet d'État XIII, May 2012, States of Guernsey Accounts 2011	Published ¹²⁴
Billet d'État XVI, July 2013, States of Guernsey Accounts 2012	Published ¹²⁵
Billet d'État XVIII, July 2014, States of Guernsey Accounts 2013	Published ¹²⁶
Billet d'État XXI, October 2013, States of Guernsey Budget 2014	Published ¹²⁷
Billet d'État XX Vol 2, September 2013, Channel Island Lottery – Administration arrangements, Forfeited Prize Account and 2011 – 2013 Reports and Accounts	Published ¹²⁸
Guide to Guernsey Retail Prices Indices 2010	Published ¹²⁹

¹²¹ <http://www.gov.gg/CHttpHandler.ashx?id=4388&p=0>

¹²² <http://www.gov.gg/CHttpHandler.ashx?id=75792&p=0>

¹²³ <http://www.gov.gg/CHttpHandler.ashx?id=5804&p=0>

¹²⁴ <http://www.gov.gg/CHttpHandler.ashx?id=75207&p=0>

¹²⁵ <http://www.gov.gg/CHttpHandler.ashx?id=83539&p=0>

¹²⁶ <http://www.gov.gg/CHttpHandler.ashx?id=88856&p=0>

¹²⁷ <http://www.gov.gg/CHttpHandler.ashx?id=84529&p=0>

¹²⁸ <http://www.gov.gg/CHttpHandler.ashx?id=90590&p=0>

¹²⁹ <http://www.gov.gg/CHttpHandler.ashx?id=2342&p=0>

Appendix 6 – Persons and Organisations consulted

Title	Organisation
Director of Leisure	C&L, States of Guernsey
Head of Assurance	IAU, States of Guernsey
Lead Consultant	The Sports Consultancy
Programme Manager & Benefits Manager	Capita
Senior Finance Manager	C&L, States of Guernsey
Senior Responsible Officer	States of Guernsey
States Treasurer	T&R, States of Guernsey

Appendix 7 –Organisations approached for Factual Accuracy

Organisation	Response received
Capita	Yes
IAU, States of Guernsey	Yes
Policy Council, States of Guernsey	Yes
The Sports Consultancy	No

Appendix 8 – Acronyms, Definitions and Assumptions

Acronym, Definitions and Assumptions	
AMO Report	Alternative Management Options Report
BSLC	Beau Sejour Leisure Centre (AKA the Centre)
C&L	Culture and Leisure Department
ELT	Executive Leadership Team
FBC	Full Business Case
Footes Lane Facilities	It is noted that the Footes Lane Facilities were added to the scope of the Project from September 2011 onwards. To provide continuity of the Report, the reference to Beau Sejour Leisure Centre should be interpreted as including Footes Lane Facilities from that point in time onwards unless specifically stated.
FSR	Fundamental Spending Review
FTP	Financial Transformation Programme
IAU	Internal Audit Unit, States of Guernsey
LMOA Report	Leisure Management Options Appraisal Report
PAC	Public Accounts Committee (AKA The Committee)
Quest	Quest is a tool for continuous improvement, designed primarily for the management of leisure facilities and leisure development. Quest defines industry standards and good practice and encourages their ongoing development and delivery within a customer focused management framework ¹³⁰
SOR	Summary Opportunity Report
SPFT	The States Project Finance Team
SRO	Senior Responsible Officer (AKA Senior Responsible Owner)s
Subsidy	Unless otherwise stated, the receipt of Lottery Funding is considered to be as part of the subsidy provided through general revenue. This is aligned to the assumption made in the ' <i>C&L_A – Beau Sejour Review, Alternative Management Options for Beau Sejour, Sept 2010</i> ', therefore forming a consistent and coherent approach to the analysis of the data
SUP	Start-up Pack
T&R	Treasury and Resource Department
TE	Transformation Executive (see ELT)
TSC	The Sports Consultancy
TUPE	Transfer of Undertakings (Protection of Employment) Regulations.
VfM	Value for Money

¹³⁰ <http://questnbs.org/quest-home>