

Crawley Borough Council

Overview and Scrutiny Commission

Agenda for the **Overview and Scrutiny Commission** which will be held in **Committee Rooms A & B**, Town Hall, Crawley, on **Monday 26 June 2017** at **7.00p.m**

PLEASE BRING THE CABINET/OSC REPORTS BOOKLET AND FORWARD PLAN TO THIS MEETING

Nightline Telephone No. 07881 500 227



Head of Legal and Democratic Services

Membership:

Councillors B A Smith (Chair), T G Belben (Vice-Chair), M L Ayling, Dr H S Bloom, R G Burgess, C A Cheshire, I T Irvine, R A Lanzer, T Lunnon, A Pendlington, T Rana, K Sudan and L Vitler

Please contact Heather Girling (Legal and Democratic Services Division) if you have any queries regarding this agenda.

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Published 16 June 2017

Emergency procedure for meetings will be circulated to Members and visitors attending this meeting. Please familiarise yourself with these procedures and the location of fire exits.

The order of business may change at the Chair's discretion

Part A Business – (Open to the Public)

1. Apologies for Absence

2. Members' Disclosures of Interest and Whipping Declarations

In accordance with the Council's Code of Conduct, members of the Council are reminded that it is a requirement to declare interests where appropriate.

Members must also declare if they are subject to their party group whip in relation to any items under consideration.

3. Minutes

To approve as a correct record the minutes of the meeting of the Overview and Scrutiny Commission held on 20 March 2017 (**Enclosure A**) and consider any matters arising.

4. Public Question Time

To answer any questions or hear brief statements from the public which are relevant to the items on this agenda. The period will end after **15 minutes** or later at the Chair's discretion.

5. Treasury Management Outturn for 2016/17

To consider Report FIN/412 of the Head of Finance, Revenues and Benefits. This is **Enclosure 1** in the OSC/Cabinet joint reports booklet for this meeting.

6. K2 Crawley – Leisure Management Procurement

To consider Report HPS/009 of the Head of Partnership Services. This is **Enclosure 2** in the OSC/Cabinet joint reports booklet for this meeting.

7. Appointments

The Commission is asked to ratify the following appointments, which were submitted to Annual Council on 19 May 2017:

West Sussex Health and Adult Social Care Select Committee (HASC)

To be decided by OSC.

The next meeting of HASC is scheduled for 7 July 2017.

West Sussex Joint Scrutiny Steering Group (JSSG)

Chair of OSC

West Sussex Joint Scrutiny Housing Provision for Care Leavers
(should the JSSG agree to retain the Group)
To be decided by OSC

8. Health and Adult Social Care Select Committee (HASC)

The next meeting of HASC is scheduled for 7 July 2017.

9. Scrutiny Review Workshop

The OSC Review Workshop was originally scheduled for 8 June 2017. OSC Members are asked to bring their diaries to the meeting to arrange a suitable alternative date.

10. Forward Plan – 1 August and Provisional List of Reports for the Commission's following Meetings

To consider any requests for items to be referred to the Commission.

11. Supplemental Agenda

Any urgent item(s) complying with Section 100(B) of the Local Government Act 1972.

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Crawley Borough Council



Minutes of the Overview and Scrutiny Commission Monday 20 March 2017 at 7.00pm

Present:

Councillor B A Smith (Chair)
Councillor R G Burgess (Vice-Chair)
Councillors T G Belben, Dr H S Bloom, R A Lanzer, T Rana, K Sudan and L Vitler

Also in Attendance:

Councillors B J Burgess, S J Joyce, P K Lamb, P Smith and M A Stone

Apologies for Absence:

Councillors M L Ayling and I T Irvine

Absent:

Councillor C A Cheshire

Officers Present:

Russell Allison Housing Enabling and Development Manager
Peter Browning Acting Chief Executive
Karen Dodds Head of Crawley Homes
Heather Girling Democratic Services Officer
Clem Smith Head of Economic and Environmental Services

86. Members' Disclosure of Interests and Whipping Declarations

No disclosures of interests or whipping declarations were made.

87. Minutes and Matters Arising

The minutes of the meeting of the Commission held on [6 February 2017](#) were approved as a correct record and signed by the Chair. Councillor Sudan raised a matter on item 84 (Crawley Town Hall). It was noted that the relationship between the Council and the developer would need to be closely monitored.

88. Public Question Time

No questions from the public were asked.

89. Town Centre Regeneration Programme (Phase 2) – Queensway & The Pavement

The Commission considered report [PES/230](#) of the Head of Economic and Environmental Services on the proposal to extend the environmental improvement scheme in Queens Square along Queensway and The Pavement, as part of the next phase of the Town Centre Regeneration Programme. The report also sought delegated authority for approval of the final design, to spend up to the allocated budget for the scheme and to appoint a contractor to construct the scheme following a procurement exercise.

During the discussion with the Cabinet Member for Planning and Economic Development, and Head of Economic and Environmental Services the following comments were made:

- Recognition that proposals included improving public space, linking Queens Square, Memorial Gardens and Queensway, partial removal of hedging that obstructs views and light; and better vehicular access into Parkside car park including traffic calming measures. It was noted that memorial trees would remain in situ.
- Recognition that subject to funding streams being agreed and consultation it was anticipated construction would commence early 2018.
- Acknowledgement that lessons learned from Queens Square improvements had been applied to this scheme.
- It was noted that further proposals including maintenance would be incorporated into the detailed final design process.

RESOLVED

That the Commission supported the recommendations to the Cabinet.

90. Sheltered Housing Service Review

The Commission considered report [CH/171](#) with the Cabinet Member for Housing and the Head of Crawley Homes. The report set out proposed amendments to the service provision in sheltered housing and that provided within general needs accommodation.

The following topics were discussed:

- Acknowledgement that consultation had taken place with the majority of tenants (with accompanying relatives if appropriate). It was noted that a level of dependency wanted to be maintained.
- Clarification sought and obtained on the operation of the key safes.
- Recognition that it was proposed to de-designate some of the dispersed schemes, starting with those where there was a high opt out of the support service and neighbourhood facilities in the vicinity.
- An acknowledgement that circumstances change and it would be necessary to identify individual health needs, maintaining regular contact to ensure people were living well and healthy.
- There would be a requirement to respond as a flexible, needs based service.

RESOLVED

That the Commission supported the recommendations to the Cabinet.

91. Cabinet Member Discussion with the Leader of the Council

The Commission noted the update given by Councillor Lamb and questioned him on a variety of issues relating to his [portfolio](#) and the leadership of the Council which included the following:

- Providing overview and general policy direction.
- Regularly meeting members of the public, other authorities, national organisations together with other private, public and voluntary sector groups, forming networks resulting in good practice that ultimately improves the general wellbeing of the town.
- The scheme of delegation for Cabinet functions was discussed as it was commented that there was provision to reform the current scheme resulting in a general set of responsibilities.
- Following the recent review of democratic structures there was recognition that there were advantages and disadvantages with the Strong Leader model. However it was felt there should be scope within the system for all Members to initiate ideas.

RESOLVED

That the Overview and Scrutiny Commission thanked Councillor Lamb for attending and for the informative discussion that had ensued.

92. Health and Adult Social Care Select Committee (HASC)

An update was provided from the most recent HASC meeting. Key items of discussion included:

- Update provided on the Patient Transport Service in Sussex. South Central Ambulance NHS Foundation Trust (SCAS) will take complete responsibility from April 2017.
- Concern expressed regarding the number of patients medically fit for discharge who remain in a hospital bed across the area, particularly in comparison to previous years.
- The Committee continues to receive updates from representatives of the Working Group regarding Brighton & Sussex University Hospitals NHS Trust Care Quality Commission Report Monitoring.

93. Forward Plan – April 2017 and Provisional List of Reports for the following meetings of the Commission

The Commission confirmed the following reports for its next meeting:

- Budget Strategy 2018/19 – 2021/22.
- Treasury Management Outturn 2016-2017.
- Local Development Scheme (LDS) – provisional referral.
- Affordable Housing Supplementary Planning Documents (SPD) – provisional referral.

94 Exclusion of the Public

RESOLVED

That in accordance with Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act by virtue of the paragraphs specified against the item.

95. Council Enabled Affordable Housing

(Exempt Paragraph 3)

Exempt Paragraph 3 (information relating to financial and business affairs of any particular person (including the Authority holding that information)).

This item was requested to be on agenda by the Cabinet Member for Housing in association with the Chair of the Overview and Scrutiny Commission.

The Commission considered report SHAPS/58 of the Head of Strategic Housing and Planning Services and the additional report SHAPS/58.5. The purpose of the report was to secure financial assistance to enable the provision of affordable housing within the borough.

A discussion was held with the Cabinet Member for Housing and the Housing Enabling and Development Manager.

During the discussion, the following points were expressed:

- Clarity sought and obtained over viability of the proposal.
- Recognition that there is increasing pressure to commit Right-to-Buy funds within the anticipated timescales.
- Overall support and the opportunity to secure account reserves and Right-to-Buy 1-4-1 receipts, to maximise affordable housing development.
- Advantages and disadvantages of shared ownership were discussed in comparison to shared equity.
- Support for any future consultations and communications to be clear and concise.

RESOLVED

That the Commission agreed to support the report to the Cabinet.

96. Closure of Meeting

The meeting ended at 8.25pm and upon closing the meeting the Chair took the opportunity to thank Members of the Commission for their attendance and contribution throughout the year.

B A Smith
Chair

Crawley Borough Council

Report to Overview and Scrutiny Commission 26 June 2017

Report to Cabinet 28 June 2017

Treasury Management Outturn for 2016/17

Report of the Head of Finance, Revenues and Benefits – FIN/412

1. Purpose

- 1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2016/17. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2 During 2016/17 the minimum reporting requirements were that the full Council should receive the following reports:
 - an Annual Treasury Strategy in advance of the year (Council 24/02/2016)
 - a mid-year treasury update report (Council 14/12/2016)
 - an annual review following the end of the year describing the activity compared to the Strategy (this report)
- 1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
- 1.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Overview and Scrutiny Committee before they were reported to the full Council.

2. Recommendations

- 2.1 To the Overview and Scrutiny Commission:

That the Commission consider the report and decide what comments, if any, it wishes to submit to the Cabinet.

- 2.2 To the Cabinet

The Cabinet is recommended to:

- a) To approve the actual 2016/17 Prudential and Treasury Indicators as set out in the report;
- b) To note the Annual Treasury Management Report for 2016/17.

3. The Economy and Interest Rates

- 3.1 The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.
- 3.2 In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.
- 3.3 The strategy adopted in the original Treasury Management Strategy Report for 2016/17 approved by the Council on 24/02/2016 was subject to revision during the year due to the addition of Housing Associations and Repurchase Agreements as counterparty categories at the mid-year update.

4. Overall Treasury Position as at 31 March 2017

- 4.1 At the beginning and the end of 2016/17 the Council's treasury position was as follows:

	31 March 2016 Principal £'000	Rate/ Return	Average Life yrs	31 March 2017 Principal £'000	Rate/ Return	Average Life yrs
Total debt	260,325	3.2%	15.03	260,325	3.2%	14.03
CFR	260,325			260,325		
Over / (under) borrowing	0			0		
Total investments	117,963	0.92%	0.68	118,183	0.68%	0.48
Net debt	142,362			142,142		

5. The Borrowing Requirement and Debt

- 5.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

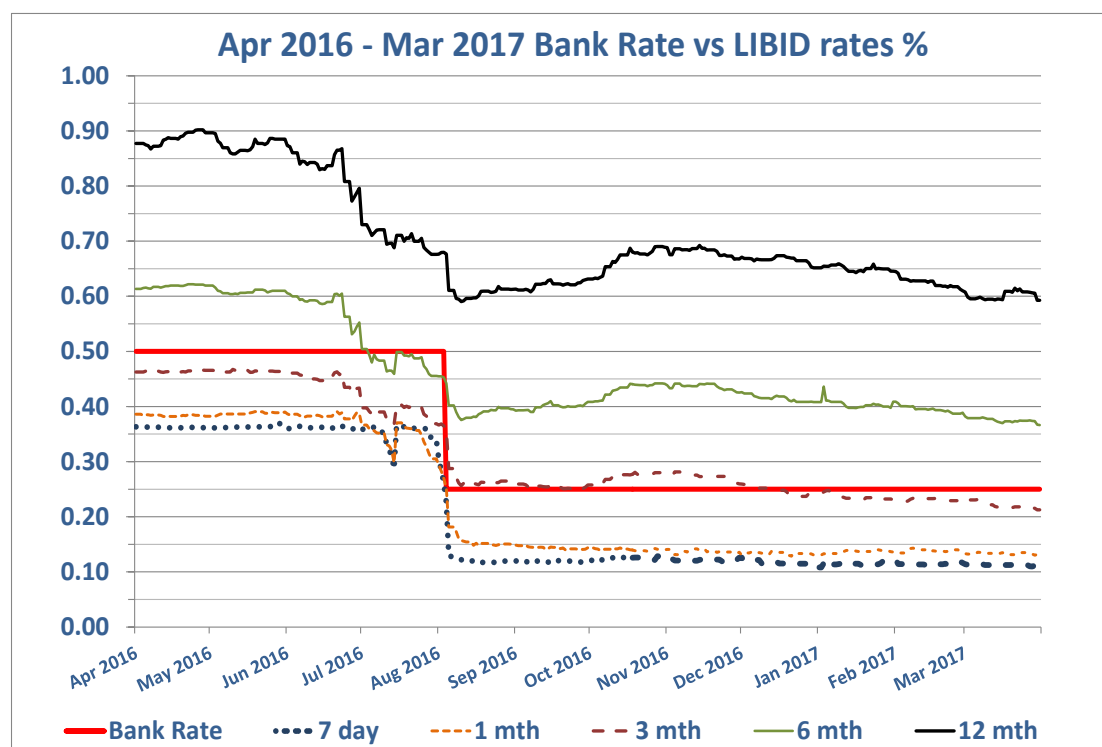
	31 March 2016 Actual £'000	31 March 2017 Budget £'000	31 March 2017 Actual £'000
CFR General Fund (£000)	0	-207	0
CFR HRA (£000)	260,325	260,147	260,325
Total CFR	260,325	259,940	260,325

6. Borrowing Outturn for 2016/17

- 6.1 No borrowing was undertaken during the year.

7. Investment Rates in 2016/17

- 7.1 After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



8. Investment Outturn for 2016/17

- 8.1 **Investment Policy** – the Council’s investment policy is governed by Government guidance, which was been implemented in the annual investment strategy approved by the Council on 24/02/2016. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data such as rating outlooks and credit default swaps. The strategy was revised in the mid-year update by Council on 14/12/2016.
- 8.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 8.3 **Investments held by the Council** - the Council maintained an average balance of £128,050,803 of internally managed funds. The internally managed funds earned an average rate of return of 0.81%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.20%. This compares with a budget assumption of £109,766,000 investment balances earning an average rate of 1.04%. See appendix 2 for a list of investments held at 31 March 2017.
- 8.4 Investments balances are higher than forecast in the strategy due to slippage in the capital programme. The rate of return achieved has been directly affected by the decision to leave the European Union and the Bank of England reducing base rate to 0.25% following this decision.

9. Implications

- 9.1 The financial and legal implications are addressed throughout this report. The Council’s investments were managed in compliance with the Code and the Prudential Code through the year.

10. Background Papers

[Treasury Management Strategy for 2016/2017 – Cabinet, 10 February 2016; OSC, 8 February 2016 \[FIN/381 refers\]](#)

[Treasury Management Mid-Year Review 2016/2017 – Cabinet, 30 November 2016; OSC, 28 November 2016 \[FIN/396 refers\]](#)

Report author and contact officer: Paul Windust, Corporate Accounting and Treasury Services Manager (01293 438693)

Appendix 1: Prudential and Treasury Indicators

During 2016/17, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2015/16 Actual £000	2016/17 Original £000	2016/17 Actual £000
Capital expenditure			
• General Fund	8,205	23,751	14,823
• HRA	20,789	35,837	16,294
• Total	28,994	59,588	31,117
Capital Financing Requirement:			
• General Fund	0	(207)	0
• HRA	260,325	260,147	260,325
• Total	260,325	259,940	260,325
Gross borrowing	260,325	260,325	260,325
External debt	260,325	260,325	260,325
Investments			
• Longer than 1 year	11,000		5,000
• Under 1 year	106,963		113,183
• Total	117,963	96,691	118,183
Net borrowing	142,362	163,634	142,142

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2015/16) plus the estimates of any additional capital financing requirement for the current (2016/17) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2016/17.

The authorised limit - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2016/17 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2016/17 £000
Authorised limit	270,325
Maximum gross borrowing position	260,347
Operational boundary	260,325
Average gross borrowing position	260,325

Ratio of financing costs to net revenue stream	31 March 2016 actual	2016/17 original	31 March 2017 actual
Non - HRA	-8.53%	-7.50%	-8.03%
HRA	16.89%	17.39%	17.18%

	31 March 2016 Principal £000	Rate/Return	Average Life yrs	31 March 2017 Principal £000	Rate/Return	Average Life yrs
Fixed rate funding:						
-PWLB	260,325	3.2%	15.03	260,325	3.2%	14.03
-Market	0	0%		0	0%	
Variable rate funding:						
-PWLB	0	0%		0	0%	
-Market	0	0%		0	0%	
Total debt	260,325	3.2%	15.03	260,325	3.2%	14.03
CFR	260,325			260,325		
Over/ (under) borrowing	0			0		
Total investments	117,963	0.92%	0.68	118,183	0.68%	0.48
Net debt	142,362			142,362		

The maturity structure of the debt portfolio was as follows:

	Lower limit	Upper limit	31 March 2017 actual
Under 12 months	0%	10%	£0.00m (0%)
12 months and within 24 months	0%	10%	£0.00m (0%)
24 months and within 5 years	0%	10%	£0.00m (0%)
5 years and within 10 years	0%	20%	£64.00m (25%)
10 years to 20 years	0%	80%	£179.00m (69%)
20 years to 30 years	0%	25%	£17.33m (6%)
30 years to 40 years	0%	10%	£0.00m (0%)
40 years to 50 years	0%	10%	£0.00m (0%)

The exposure to fixed and variable rates was as follows:

Debt portfolio £000	31 March 2016 actual	2016/17 original limits	31 March 2017 actual
Fixed rate	260,325	270,325	260,325
Variable rate	0	10,000	0

Investment portfolio £000	31 March 2016 actual	2016/17 original limits	31 March 2017 Actual
Fixed rate	105,931	140,000	111,996
Variable rate	12,032	40,000	7,187

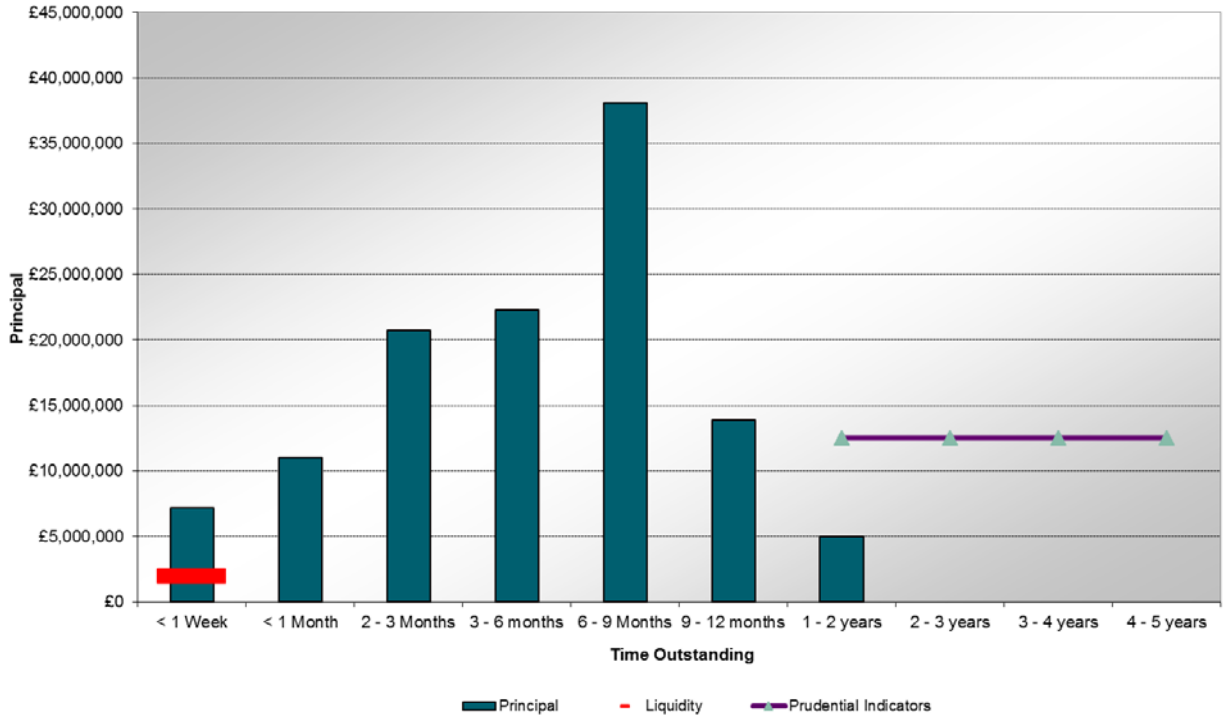
Detailed holdings at 30 September 2016

APPENDIX 2

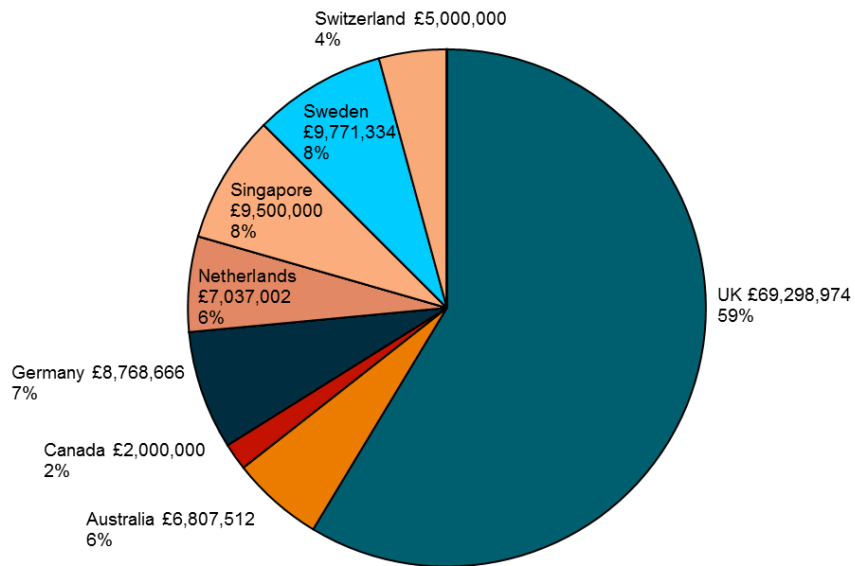
Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)	Limit (£m)	Rating
AUSTRALIA BANKS									
Commonwealth Bank of Australia	2364	01/06/2016	24/05/2017	54	0.985%	5.000	5.000	10.000	AA-
UK BANKS									
Goldman Sachs International Bank	2391		01/04/2017	1	0.755%	2.000	2.000	10.000	A
Lloyds Bank plc	20		01/04/2017	1	0.150%	1.886	1.886	10.000	A+
Sumitomo Mitsui Banking Corporation	2400	02/12/2016	02/06/2017	63	0.510%	3.000	3.000	10.000	A
UK BUILDING SOCIETIES									
Nationwide BS	2379	09/08/2016	08/08/2017	130	0.620%	2.000			
	2395	14/11/2016	15/05/2017	45	0.420%	1.500	3.500	10.000	A+
CANADA BANKS									
Toronto Dominion Bank	2381	16/08/2016	16/05/2017	46	0.580%	2.000	2.000	10.000	AA-
CORPORATE BONDS									
BG Energy Capital plc	2403	14/12/2016	07/12/2017	251	0.591%	1.996	1.996	2.000	A
Daimler AG	2399	05/12/2016	08/11/2017	222	0.703%	2.000	2.000	2.000	A-
Deutsche Bahn Finance BV	54	11/08/2016	30/10/2017	213	0.389%	1.769	1.769	2.000	AA-
National Australia Bank Ltd	2409	17/01/2017	08/11/2017	222	0.547%	1.808	1.808	5.000	AA-
National Grid Gas plc	2376	06/07/2016	07/06/2017	68	0.759%	1.216	1.216	2.000	A-
Prudential plc	2411	25/01/2017	19/01/2018	294	0.658%	1.410	1.410	2.000	A
Rabobank Group	2404	15/12/2016	01/11/2017	215	0.604%	1.517			
	2406	05/01/2017	01/11/2017	215	0.559%	0.520	2.037	5.000	AA-
Svenska Handelsbanken	55	12/08/2016	29/08/2017	151	0.554%	0.755			
	56	15/08/2016	29/08/2017	151	0.612%	1.006	1.761	10.000	AA-
GERMANY BANKS									
Landesbank Hessen-Thuringen Giroze	2378	01/08/2016	31/07/2017	122	0.600%	2.000			
	2392	01/11/2016	31/10/2017	214	0.660%	3.000	5.000	10.000	A
LOCAL AUTHORITIES									
Dundee City Council	2401	15/12/2016	14/12/2017	258	0.450%	3.000	3.000	15.000	AA+
East Dunbartonshire Council	2397	24/11/2016	23/11/2017	237	0.420%	2.000	2.000	15.000	AA+
Glasgow City Council	2393	05/12/2016	04/12/2017	248	0.410%	5.000	5.000	15.000	AA+
Kingston-Upon-Hull City Council	36	02/12/2013	02/12/2021	1707	2.750%	5.000	5.000	15.000	AA+
London Borough of Enfield	2396	28/11/2016	27/11/2017	241	0.440%	5.000	5.000	15.000	AA+
North Tyneside MDC	2402	13/12/2016	12/12/2017	256	0.480%	3.000	3.000	15.000	AA+

Counter Party	Deal Ref	Issue	Maturity	Days to Mature	Interest Rate	Nominal (£m)	Total (£m)	Limit (£m)	Rating
Peterborough City Council	33	11/03/2013	12/03/2018	346	1.750%	4.000	4.000	15.000	AA+
City of Salford MDC	2354	11/04/2016	10/04/2017	10	0.650%	2.000			
	2414	20/03/2017	20/09/2017	173	0.450%	2.000	4.000	15.000	AA+
Slough Borough Council	2413	20/02/2017	19/02/2018	325	0.600%	2.000	2.000	15.000	AA+
Staffordshire Moorlands District Co	42	03/11/2014	03/11/2017	217	1.600%	2.000	2.000	15.000	AA+
Telford & Wrekin Council	2417	31/03/2017	13/04/2017	13	0.400%	4.000	4.000	15.000	AA+
Thurrock Borough Council	2405	06/01/2017	05/01/2018	280	0.450%	2.000			
	2408	06/01/2017	05/01/2018	280	0.450%	2.000	4.000	15.000	AA+
Warrington Borough Council	2398	29/11/2016	28/11/2017	242	0.450%	3.000	3.000	15.000	AA+
West Dunbartonshire Council	2353	19/04/2016	18/04/2017	18	0.550%	5.000	5.000	15.000	AA+
MONEY MARKET FUNDS									
Standard Life Investments LF	4		01/04/2017	1	0.286%	1.175	1.175	6.000	AAA
Federated Prime Rate Cash Man	1		01/04/2017	1	0.271%	2.115	2.115	6.000	AAA
NETHERLANDS BANKS									
Rabobank Group	2390	13/10/2016	12/10/2017	195	0.600%	2.500			
	2407	05/01/2017	04/01/2018	279	0.490%	2.500	5.000	10.000	AA-
SINGAPORE BANKS									
DBS Bank Ltd	2382	26/08/2016	26/05/2017	56	0.450%	5.000			
	2416	28/03/2017	28/09/2017	181	0.480%	2.000	7.000	10.000	AA-
United Overseas Bank Ltd	2410	20/01/2017	20/07/2017	111	0.410%	2.500	2.500	10.000	AA-
SWEDEN BANKS									
Svenska Handelsbanken	17		01/04/2017	1	0.100%	0.010	0.010	10.000	AA-
Nordea Bank AB	2394	14/11/2016	15/05/2017	45	0.400%	3.000	3.000	10.000	AA-
Skandinaviska Enskilda Banken	2385	08/09/2016	07/09/2017	160	0.510%	2.000			
	2389	03/10/2016	07/09/2017	160	0.510%	3.000	5.000	10.000	A+
SWITZERLAND BANKS									
UBS AG	2373	05/07/2016	04/07/2017	95	0.685%	3.000			
	2386	12/09/2016	11/09/2017	164	0.700%	2.000	5.000	10.000	A
							118.183		
INVESTMENT PROPERTIES							14.124		
						221	132.307		

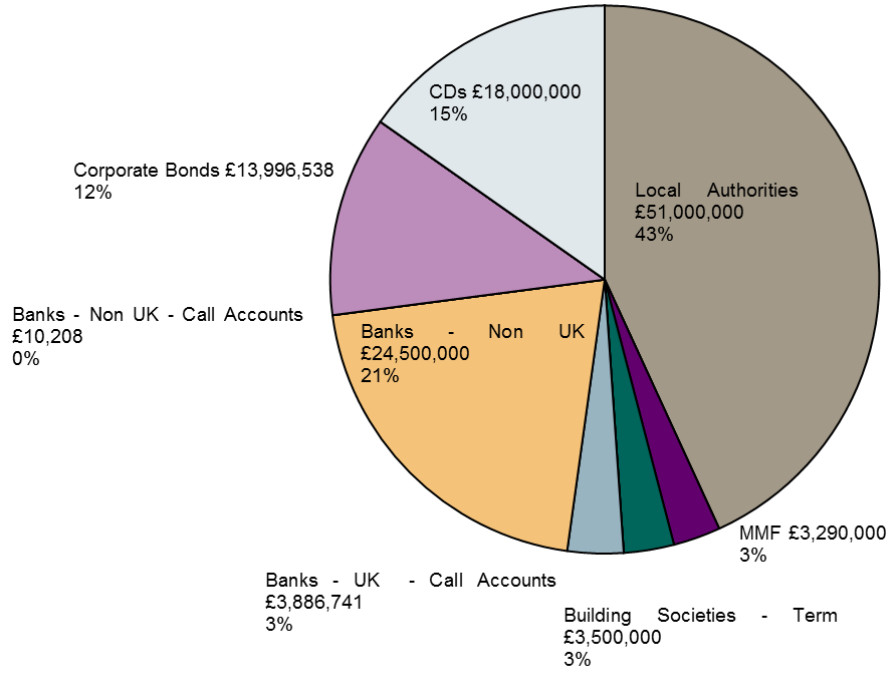
Compliance with Liquidity and Prudential Indicator Limits



Country Limits



Sector Diversification



Crawley Borough Council

Report to Overview and Scrutiny Commission 26 June 2017

Report to Cabinet 28 June 2017

K2 Crawley – Leisure Management Procurement

Report of the Head of Partnership Services, HPS/009

1. Purpose

- 1.1 This report considers options for the future management of K2 Crawley and makes recommendations for the preferred procurement route and service priorities to be reflected in the procurement process.

2. Recommendations

- 2.1 To the Overview and Scrutiny Commission:

- 2.1.2 That the Commission consider the report and decide what comments, if any, it wishes to submit to the Cabinet.

- 2.2 To the Cabinet

- 2.2.2 The Cabinet is recommended to:

- a) Approve the recommended procurement approach and process for the future management of K2 Crawley, Broadfield 3G Pitch and Bewbush Gym, as set out in paragraphs 6.2 to 6.10 of this report.
- b) Approve the recommended tender evaluation model as set out in paragraphs 6.11 to 6.12 of this report.
- c) Approve a supplementary capital estimate of £170,000 to provide a further 79 car parking spaces (subject detailed design and planning approval) within the main K2 Crawley car park as outlined in paragraph 6.13 of this report. The supplementary capital estimate to be funded from useable capital receipts.
- d) Agree to establish a cross party working group (3:2) to oversee the proposed procurement and tender evaluation process as set out in paragraph 6.15 of this report and for the Head of Legal and Democratic Services to liaise with Group Leaders to obtain nominations.
- e) Note that a further report will be brought to Cabinet in due course seeking approval of a preferred leisure management contractor.

3. Reasons for the Recommendations

- 3.1 The recommendations are required to ensure management arrangements for K2 Crawley are in place after the expiry of the current contract in November 2018. The recommended procurement process aims to provide a balance between financial sustainability and supporting the Council's Budget Strategy whilst ensuring a high quality inclusive service which continues to support the wider health and wellbeing agenda for residents.

4. Background

- 4.1 K2 Crawley opened in November 2005. The Centre has been extremely successful and now regularly attracts in excess of 1.3 million visitors per annum with around 4,500 people regularly attending as K2 Crawley Members. K2 Crawley has also supported the sustainability and success of some of the town's larger sports clubs with significant growth in membership numbers and club and individual achievements evident at Crawley Swimming Club, Crawley Athletics Club Crawley Gymnastics Club as well as many of the other smaller clubs based at K2 Crawley.
- 4.2 In November 2008, following a competitive procurement process, the Council entered into a 10 year contract with GLL who subcontracted the contract to Freedom Leisure to manage K2 Crawley. The existing contract has worked well with customer feedback generally very positive about the standards and quality of service provided and has generated significant savings compared to the previous contractual arrangements.
- 4.3 The current contract with GLL/Freedom Leisure expires in November 2018 and it is now necessary to commence the process to ensure management arrangements are in place after the expiry of the current contract.

5. Description of Issue to be resolved

- 5.1 The expiry of the current K2 Crawley contract on 13th November 2018 requires the Council to establish management arrangements which will come into effect after this date. These arrangements need to be compliant with the Public Contract Regulations (2015), with European Union Public Sector Procurement Directive 2014/24/EU and with the Council's own Procurement Code. To ensure sufficient time to implement the recommended procurement approach, it is necessary now for the Council to agree its preferred option for the future management of K2 Crawley and associated leisure facilities.

6 Information & Analysis Supporting Recommendation

- 6.1 This section sets out options, key considerations associated with the future management of K2 Crawley. Specifically, recommendations are made in respect of:
- (i) Options appraisal and preferred procurement approach
 - (ii) Proposed procurement process and variant bid proposals
 - (iii) Proposed Contract Scope
 - (iv) Proposed Contract Length
 - (v) Tender Evaluation Model
 - (vi) Car Parking Arrangements
 - (vii) Licensee Arrangements

Options Appraisal and Recommended Procurement Approach

- 6.2 In considering the proposed procurement approach, there are three broad alternatives available to the Council:
- (i) Bring the service back as an in house operation
 - (ii) Establish an independent Charitable Trust to operate K2 Crawley
 - (iii) Procure an existing operator via a competitive tender (Charitable Trust).
- 6.3 A summary of the strengths and weaknesses of these respective options is presented in Appendix 1.

- 6.4 Based upon the assessment of relative strengths and weaknesses contained in the Appendix, the recommended preferred option is to procure an established leisure operator. Consideration of the further key issues assumes this preferred approach.
- Procurement Process and Variant Bid Proposals
- 6.5 In 2015 the new Public Procurement Directives were issued and became law. The new Regulations fundamentally changed how local government undertook procurement exercises. Prior to the 2015 Regulations, sport related services were deemed a Part B service. The 2015 Regulation have removed the classification of services contracts as either part A or Part B instead all service contracts are subject to the full procurement regime, unless they are expressly excluded, in which case a "light touch" regime will apply. Schedule 3 of the 2015 Regulations lists services subject to the "light touch" regime, which includes "sport facilities operation services". This contract will therefore be classified as a Light Touch Regime procurement. The advantages of the Light Tough Regime is the flexibility to use any process or procedure the council choose to run the procurement as long as it respects the Treaty principles of transparency, non-discrimination, equal treatment and proportionality. There are some mandatory requirements which include publishing a Contract Notice to advertise the contract opportunity, and the publication of a contract award notice.
- 6.6 In consultation with SLC, the Council's consultant advisers supporting the procurement process, it has been agreed that the Council will follow an adapted procedure which roughly follows the principals of the PCR 2015 Competitive Procedure with Negotiation Route. The Competitive Procedure with Negotiation has been introduced under the 2015 Regulations and is used as an alternative to Competitive Dialogue when procuring a complex contract where effective negotiation with bidders will be necessary and/or beneficial.
- 6.7 The negotiation stage allows us to tailor our procurement in order to meet our specific needs. The negotiation will be run in successive stages, allowing dialogue and/or amendment to all elements of the specification and tenders, with the exception of the award criteria or the "minimum requirements" of the contracting authority. During the negotiation process we will shortlist suppliers to take a maximum of three to a final tender stage. Following submission of final tenders, no negotiation, of the tender submission is permitted.
- 6.8 As noted above, the recommended procurement process will allow for dialogue with potential bidders and should the Council so wish, revisions to the specification in advance of final bids being submitted. Noted below are the proposed variant bid options which the Council would propose for dialogue with bidders
- (i) Capital Investment Leisure Water: Officers have developed a concept scheme to enhance the leisure water provision and provide facilities of interest to older children (alongside the current provision which primarily attracts younger children) Reflecting the Council's current capital investment strategy, it would be expected that an investment in such facilities would provide a financial return to the Council. Including this scheme as a variant bid will enable the Council to assess the likely rate of return from bidders and decide whether this option should be included within the final tender submissions. Part of the assessment of the variant bids would consider whether it provides better value for the Council to make the capital investment and achieve the rate of return through the contract payment to the Council.

- (ii) **Planned Maintenance and Capital Replacement:** Under the current leisure management contract, Freedom Leisure are responsible for all reactive repairs and maintenance and replacement of equipment and consumables. The Council has retained responsibility for major capital replacement items and planned maintenance. The current arrangements have worked well and K2 Crawley continues to be well maintained and functions effectively with downtime / non availability of facilities occurring only in exceptional circumstances.

Through the competitive dialogue process, this variant bid will provide the opportunity to consider the financial and operational implications of transferring all of the capital replacement and the planned maintenance responsibilities to the contractor. Once the responses to this option are assessed and the dialogue stage is complete, the final tenders will be submitted with these responsibilities either retained by the Council or included as contractor responsibilities.

- (iii) **Living Wage Foundation:** Since 2014, the Council has been accredited to the Living Wage Foundation. Reflecting this, bidders will be asked to provide a variant bid compliant with Living Wage Foundation' wage rates.

Proposed Contract Scope:

- 6.9 The current Leisure Management Contract scope incorporates K2 Crawley, the gym and fitness facilities and cafe at the Bewbush Centre and the Broadfield 3G Pitch and Pavilion. It is recommended that these facilities form a cohesive group which all bidders would have relevant experience in managing and this facility scope is therefore proposed to be retained.

Proposed Contract Length:

- 6.10 The feedback from the Council advisers is that contracts of between 15 and 20 years typically generate the most 'market interest' and consequently secure the most advantageous contract offers for the Council. It is recommended that the contract term for K2 Crawley is for a period of 15 years, with the option to extend for a further 5 years, should the Council (and the contractor) choose to do this at the end of the proposed contract term.

Evaluation Model:

- 6.11 It is proposed that the evaluation model is based on a split of 40% price and 60% quality. Allowing for 60% of the weighted evaluation to be quality based provides the opportunity for the Council to ensure they are appointing a contractor who will provide good quality services and is best placed to respond to the Council's priorities set out in the service specification. The quality evaluation will incorporate an assessment of a number of priority aspects including, increasing participation, environmental sustainability, customer service excellence and customer engagement, sports development and working in partnership to improve health and well being, programming and equity proposals, development and management of staff, fees and charges and asset management. Each of the quality areas will be weighted in order of importance to the Council.
- 6.12 With regard to the financial evaluation, it is proposed that the Council sets a minimum threshold, below which the Council reserves the right not to accept a tender. This effectively communicates to bidders the minimum financial expectations which the Council have for the contract. Currently the Council receive a payment from Freedom Leisure of £220,000 per annum. The Council's advisors have prepared a 'shadow bid' and proposed that the minimum payment threshold should be set at £450,000 per annum. From that base position, bidders would score higher the greater the payment they propose to the Council.

Car Parking

6.13 Availability of car parking at K2 Crawley can be an issue for customers at peak times and commonly is the main area of customer complaint. The ability of bidders to project increases in customer numbers and therefore to improve the financial payment to the Council is likely to be encumbered by these concerns regarding car parking. To address this, the following are proposed

- (i) To respond to current capacity requirements and provide parking for potential expansion of facilities, a scheme to remodel the existing car park has been prepared. This will provide an additional 79 car parking spaces at a budget cost £170,000. It is recommended that a supplementary capital estimate of £170,000 is requested to provide this additional car parking and that, subject to planning and detailed design, this scheme be implemented in advance of the new contract start date. These proposed enhancements to the car park will be communicated to bidders as part of the tender process.
- (ii) As part of the dialogue process with operators, the Council will discuss with bidders how they would support the Council's broader sustainability policies and promote alternative methods of transport to K2 Crawley customers. This would also include discussions regarding the car park management. Travel plan proposals can also form part of the weighted quality evaluation under the environmental sustainability consideration.
- (iii) If the capital investment to provide enhanced leisure water proceeds, this proposal would need to consider whether any further mitigating measures would need to be implemented.

Licensee Arrangements

6.14 A number of licensee arrangements are in place at K2 Crawley which provide specialist management of specific facilities / services. These include Hi Sports (climbing wall), Hawth Gymnastics (gymnastics hall), The Treatment Rooms, Premier Training, Black Belt Academy, Day Nursery / Crèche and the Sports Nutrition Shop. These licences are held by the management contractor as occupier of K2 Crawley. To provide continuity for these operations and for the customers who use these services, it is proposed that these arrangements are extended into the new contract period with the incoming management contractor required to retain these existing licensees on pre agreed terms.

Member Involvement

6.15 The proposed procurement option, process and evaluation model were presented to Members at a Full Members Seminar on 13th June 2017 and will be considered by the Overview and Scrutiny Commission on 26th June 2017. Any comments can be provided verbally to Cabinet where appropriate. To ensure Members continued involvement in the process, it is proposed that a Cross Party K2 Management Working Group to oversee the procurement and tender evaluation process be established.

7. Implications

7.1 Financial Implications: The Council currently receives a contract payment of £220,000 per annum from Freedom Leisure. This is offset by expenditure on planned maintenance and capital replacement which for K2 Crawley, was £356,000 in 2015/16 and £96,000 in 2016/17.

7.2 The preferred procurement route and proposed evaluation model will seek to balance commercial considerations which provide an improved revenue position for the Council with broader policy considerations including Living Wage, Wellbeing and

Sports Development. The Council's consultant advisers have assessed the contract potential and advised that the Council should set a base bid minimum threshold of a payment of £450,000 per annum to the Council. This effectively communicates to bidders the minimum the Council would expect to receive and it would be reasonable to assume the Council will receive a payment in excess of the minimum threshold. It is noted compliance with the Living Wage variant bid may reduce the minimum payment (as compared with the base bid proposals).

- 7.3 Legal and Procurement Implications: The Leisure Management Contract is one of the biggest the Council procures, it is imperative therefore that the Council ensures compliance with the Public Procurement Regulations and OJEU requirements. The Council's procurement and legal teams are providing comprehensive support and advice on this project to ensure compliance and are part of the core project team. In addition, the project is supported by consultants SLC, who have expertise in the field of leisure procurement.
- 7.4 Environmental Implications: Through joint work between the existing leisure management contractor and the Council, electricity and gas consumption at K2 Crawley has reduced by 63% and 6% respectively over the 10 years of the current contract. Environmental considerations including accreditation to ISO 140001 will form part of the evaluation weighting to help to ensure these Council priorities are reflected in the management practice at K2 Crawley.

8. Background Papers

- 8.1 K2 Crawley: Procurement Options Appraisal Report – April 2017. Sport and Leisure Consultancy

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Evaluation of Procurement Options

In House Operation	
Strengths	Weaknesses
<p>An in house operation could enable the Council to benefit from any upturn in market conditions or in the economy during the contract period. (Noted that the reverse, ie a downturn, also applies.</p> <p>There is more direct control of an in house operation (Noted, provisions exist within the contract should there be concerns about particular aspects of contractor performance. Moreover, a procurement process would seek to ensure an appropriate balance between cost and quality so that an appointed operator is delivering services to the Council's required quality standards).</p>	<p>The Council is not able to recover VAT on income or secure Non Domestic Business Rate Relief. The majority of the existing leisure centre management organisations are Charitable Trusts and these financial benefits are available to those Trusts. The VAT and NNDR implications of taking the service in house would increase the cost to the Council by approximately £600,000 per annum.</p> <p>Taking the service in house would include transferring the existing staff employed at K2 Crawley to the Borough Council's terms and conditions of employment. In addition to the VAT and NNDR considerations, these costs, (in particular the employer costs associated with the average salary pension scheme) would add costs, in excess of a further £600,000 per annum to the Council. The total additional direct cost is therefore likely to exceed £1.2 million.</p> <p>There would be further increases in central support costs (HR, Finance, ICT) which would need to be reflected in the cost of the service.</p> <p>As a competitive trading service, leisure centre income is open to market variability. In particular, competition from private sector health and fitness chains can significantly impact leisure centre income. An in house service would increase the broader Budget Strategy risks to the Council.</p>

Establishing an In House Trust Operation	
Strengths	Weaknesses
<p>Potentially the Council could retain greater day to day control of an in house trust. It is noted however that to retain its independent charitable status, the Council could not be seen to exert any significant influence on the trust. Equally, the Council would be bound by the terms of the service specification and contract which it issues as part of the tender process.</p>	<p>To comply with procurement regulations and to support demonstration of Best Value, the Council would be expected to test any in house trust bid against external bidders as part of a competitive process. K2 Crawley is an established prestigious centre of regional significance and discussions with potential bidders indicate there would be strong market interest and the Council is likely to receive high quality and competitive bids. The Council's consultant advisers have indicated they are not aware of examples where an in house trust has been able to effectively compete against an established multi contract organisation. This is largely because the larger established trusts</p> <ul style="list-style-type: none"> (i) Are able to allocate central costs across multiple contracts, typically resulting in central costs lower than single site operations. (ii) Are able to dedicate greater resources and investment in branding, IT and new service developments which can then be rolled out across their Group with greater opportunity to recover investment across multiple sites. (iii) Are able to achieve greater economies of scale in purchasing. <p>Without a trading history, an in house trust would not achieve the Council's turnover threshold requirement to be able to tender for the K2 Crawley contract.</p> <p>Notwithstanding the improbability of an in house trust 'winning' in a competitive process, the Council's consultant advisers have indicated that it would normally take up to 18 months to set up an in house trust to a position where it could bid in a competitive process. This would necessitate either an extension to the existing contract or a requirements to temporarily bring the service back in house. Either of these options would delay savings envisaged from the new</p>

	<p>contract and could potentially add to revenue costs in the short term.</p> <p>Although in theory an in house trust transfers risk from the Council, in practice, should an in house trust experience financial losses, the absence of reserves or other contracts on which to draw would mean much of the risk is retained by the Council.</p>
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Procurement of an Established Leisure Operator	
Strengths	Weaknesses
<p>K2 Crawley is a respected prestigious regional leisure centre. Informal dialogue with potential bidders indicates there would be a lot of interest in managing K2 Crawley and the Council is likely to receive competitive and favourable bids if managed through a competitive procurement process.</p> <p>A competitive tender process facilitates financial risk transfer and greater stability for the Council's budget strategy.</p> <p>Dependent upon the preferred procurement process, this option enables the Council to enter into a dialogue with bidders and secure experience and expertise from a range of leisure management companies. Drawing on these inputs can help the Council to achieve improved financial and quality outcomes.</p> <p>With consolidation to a smaller number of larger operators, it is likely that the successful bidder would be operating many other local authority contracts across the region if not across the country. Such established operators typically bring Group expertise in areas such as health and fitness, repairs and maintenance, environmental sustainability, customer engagement, sports development and health and wellbeing. Such Group expertise will typically ensure innovation and industry best practice are utilised and deployed at K2 Crawley.</p>	<p>Should there be performance concerns or should the contractor seek to operate in a manner not in keeping with Council policy or expectations, it could be harder to address such concerns (relative to an in house service). Although this potential does exist, the Council will seek to ensure the weighted evaluation criteria support selection of a high quality contractor which minimises this risk.</p> <p>Equally the service specification and contract will contain provisions which enable the Council to take action should performance be a concern.</p>