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Trends in public/private sector partnerships

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Abstract
The government places great emphasis on partnerships between the public and private sectors, particularly for the provision of new capital assets previously built by the public sector. How are partnerships developing in the sport and leisure sector?

The boundaries between what is sport and what is leisure are very fine. Most sports facilities in the UK are provided by local authorities and voluntary clubs. The leisure industry operates commercial leisure with an increasing emphasis on the development of health and fitness clubs.

The provision of capital receipts and planning gain (Section 106 agreements) have always been a traditional way for local authorities to raise partnership capital. Grants are also available from other public sector organisations including regional development agencies (RDAs) and the European Union (EU). In the last five years Lottery funding has made a significant impact on sport, and yet the Sport England Lottery Fund is now turning down four out of five schemes. Some local authorities have set up trusts, but these provide short term gains.

The Private Finance Initiative has been used for few leisure projects, and some consultants are looking more towards the route of design, build, finance and operate (DBFO). The evolution of CCT into 'best value' has made partnerships with the private sector more flexible; operators are prepared to invest major capital into local authority facilities in return for longer leases. The growth in private sector investment in health and leisure clubs will provide competition with local authorities. Local authorities have reducing capital and revenue funding available for sport and leisure. Is sport and leisure in the future only for those who can afford to pay?

INTRODUCTION

'Partnership finance' dominates the building and operation of many capital schemes traditionally provided by the public sector. The government has continued the work of the past administration with 'partnerships' taking over the provision of new offices for MPs and GCHQ, and the running of hospitals, prisons and even MI5. So has the provision of public sport and leisure buildings developed in the same way? This paper, based on a recent paper presented at the TILE (Trends in Leisure and Entertainment), explores the current trends in public and private sector partnerships in this sector.

DEFINITIONS OF SPORT AND LEISURE

The first question which must be asked is how do we define sport and leisure? In a recent Sport England publication[1] a broad definition of sport was quoted, consistent with one recommended by the Council of Europe in its charter for sport.

> **'Sport means all forms of physical activity which, through casual or organised participation, aim at expressing or improving physical fitness and mental well-being, forming social relationships or obtaining results in competition at all levels.[2]**

The boundary between what is defined as sport and what is defined as leisure is very fine. Recent arguments about whether chess or darts should be defined as sport and the inclusion of tenpin bowling in the Commonwealth Games do not make the dividing line any easier to find. For the purposes of this paper we are looking at providing funding for sports and leisure facilities owned or operated by local authorities or voluntary clubs. Local authorities own and operate nearly 2,000 sports centres, football pitches, athletics tracks, swimming pools and ice rinks. This is a unique municipal provision in Europe, and local authorities invest capital each year in excess of approximately £1bn. It is important to note that this provision is not a statutory provision, it is voluntary, and anecdotal evidence suggests that each year the local authority department responsible for leisure provision sees cuts in both its capital budget (if it still has one) and in revenue provision to run the centres over the coming year.

The private sector has always been associated with the provision of leisure facilities, but increasingly the provision of health clubs and indoor tennis has been high on the agenda. The common link with local authority provision is through the attraction of the mass market. Footfall, or number of participants, is as important to the private sector as to the local authority. The fact that the local authority is looking at numbers of swimmers and the private sector at people who drink, eat, stay in hotels, gamble or play snooker or tenpin bowling is less important than the fact that their customers go out and do something, and do not stay at home and watch television or surf the Internet. The synergy can be in their close proximity. There are marketing opportunities for attracting groups to visit sport and leisure centres where the adults go tenpin bowling and the younger ones swim. A more recent development has been land-use planning policy which seeks to put leisure provision in town centres. It is not always easy to find sites which are large enough to accommodate a wide range of leisure activities, but the local authority can have a role in encouraging leisure use on 'brownfield' sites, particularly as leisure can be developed on contaminated sites. There is also scope for allocated sites for sport and leisure in local plans in sub-regional centres near to housing

Local authorities can encourage leisure use

estates or the suburbs of towns and cities. Most of the early David Lloyd leisure centres were built on contaminated sites. With the right site, the provision of sport and leisure adjacent to each other can be popular with local planners who are interested in 'green transport plans', where the greater the number of people, the more attractive the site is to bus companies and other public transport providers.

Business in Sport and Leisure (BISL) is an umbrella group for nearly 100 private sector companies in the sport and leisure industry. Its members include most of the major operators of commercial leisure in the UK and their market capitalisation is in excess of £40bn. Their investment potential to buy new sites to develop for leisure facilities and the synergy with local authority sport makes them good partners for public sector providers. Many basic forms of partnership can come through capital receipts or planning gain, for which the local authority is a recipient with the potential for using this funding for their sports provision.

Capital receipt

CAPITAL RECEIPTS AND PLANNING GAIN

A slightly dated but simple example of use of a capital receipt is the Colchester Leisure Centre, redesigned in the late 1980s by S&P Ltd (architects). The centre contained a swimming pool and sports hall, but it was sited on a main road, although the entrance was off a side road to the back of the building. S&P recommended creating a new entrance off the main road and, in an effort to raise funds, Colchester Borough Council sold two sites to First Leisure for tenpin bowling and MacDonald's for a drive-through. The commercial leisure raised £1.2m which was invested in the refurbishment of the swimming pool and sports hall. In 1998, the government lifted the requirement for local authorities to set aside a proportion of capital receipts to redeem debt. The Local Government and Housing Act 1989 required local authorities to set aside 50 per cent of capital receipts for redeeming debt. This was an effort by the government to reduce the local authority contribution to the public sector borrowing requirement (PSBR). There are still some restrictions on certain types of sales, but in essence local authorities can sell sites they own for leisure, offices or shops and keep the proceeds. As the fastest-growing service sector in the UK economy, the leisure industry is at the forefront of developing new sites. It is up to the local authority to be imaginative about the use of this potential, and there is a strong argument that if the site is sold for leisure, then the proceeds should be invested in local-authority-owned sports and leisure facilities.

Planning gain or Section 106 agreements can run on similar lines. At a basic level, new housing developers can be asked to provide community sports facilities in return for planning permission to build new houses. In some cases local authorities also ask for commuted funds to allow for the upkeep of sports centres or indeed of any new green space for which the local authority will become responsible. A more complicated example is the Leisure World at Hemel Hempstead, where Ladbroke developed a superstore and leisure development. Rank took on the leisure, but the local authority requirement was for the leisure to include a leisure pool and leisure ice rink at no cost to the council. The Leisure World includes both a pool and ice rink alongside bars, cafes, amusements, tenpin bowling and cinema. In a further requirement, Ladbroke were required to build an athletics track and to relocate 12 football pitches previously on the site to somewhere else in Hemel Hempstead with new changing provisions. The planning gain was commensurate with the location of the site (adjacent to the M1 and M25) and development potential. The site is not in the town centre, and initially Rank paid the bus company to visit, but in time the combination of visitors to the superstore and the leisure centre created a viable bus route.

GRANTS FROM PUBLIC SECTOR FUNDS

Sport is a catalyst for urban regeneration

Obviously the private sector is not the only provider of funds for sports centres for local authorities or voluntary clubs. Grants are available from a number of sources, depending on location and the population the centre serves. Increasingly, sport is seen as a catalyst for urban regeneration and a key player in tackling social exclusion. It also contributes to healthy living and personal development of law-abiding citizens. More details can be found in the Sport England publication *The Value of Sport*.[3] The economic importance of sport is often underestimated. Real growth in expenditure on subscriptions and fees to participate in sports rose 20 per cent between 1995 and 1998, to over £2.2bn. Consumer expenditure on sport is 2.46 per cent of total consumer spending in England, and value added is 1.72 per cent of GDP. These statistics make sport an important part of the work of regional development agencies (RDAs), which have also taken over the grant-loving powers of English Partnerships. The Single Regeneration Budget continues to provide funding for local authority sports facilities, and if they are located in an Objective 1 area, funding is also available from the European Regional Development Fund. Other sources of funding include the New Deal for Communities and the Coalfields Initiative.

THE SPORTS LOTTERY FUND

The National Lottery and the percentage distributed by Sport England and Sport UK for sport have been of great significance since 1995, although the advent of the New Opportunities Fund and a recent drop in sales by Camelot have led to the Sports Lottery Fund reducing by about £50m per annum. Sport England recently marked the occasion of £1bn being allocated to sports projects. The National Lottery still appears as the most likely option for the funding for sport envisaged by local authorities in the annual research report from Ernst & Young,[4] although four out of five schemes are rejected. It is worth noting that the Sports Lottery Fund has given just over half of its awards for projects asking for less than £50,000, which puts into perspective the large number of schemes rejected. The number of schemes submitted and their quality highlights the lack of investment in sport in the past and huge requirement for investment now and in the future. Despite awards of £197m for swimming projects between 1994 and 2000, recent research undertaken on behalf of Sport Scotland and applied to English facilities estimates that the investment required to modernise existing swimming pools alone is around £1.8bn. The current Sports Lottery Fund available for all local authority sports and recreation facilities is around £220m per annum, with about £25m available for swimming pools. The Sports Lottery Fund has to look at making the funds go further, and encouraging greater investment from the private sector will be increasingly important in the future.

TRUSTS AND NOT-FOR-PROFIT ORGANISATIONS

Increasingly there is a trend for local authorities to set up a trust or 'workers cooperative' for the management of their leisure centres. This is seen as a way of operating facilities at arm's length, and taking advantage of savings on rates, VAT and corporation tax. Many of these trusts are charitable trusts. The main disadvantage of this route is that if a trust is to operate properly, it must be at arm's length from the local authority and have independent trustees. It is also perceived by some local authorities as an alternative to a private sector partnership, which will in time be able to raise funds. Unfortunately the asset base of these trusts is often too small, and with little history of income streams, funders are unlikely to lend them capital. Trusts can provide a short-term gain for local authorities, but in the long term there remains a question over their ability to raise capital; this leaves the local authority with facilities which need upkeep and ultimately capital injection which they must find from their own means.

Trusts as an alternative to private sector partnership

THE PRIVATE FINANCE INITIATIVE (PFI) AND DESIGN, BUILD, FINANCE AND OPERATE (DBFO)

The Private Finance Initiative (PFI) has always been about using private sector funds to build public sector projects. Arguments about costs of borrowing and whether or not enough risk is transferred to the private sector continue, but in essence the PFI tends to be about large projects. The Skye toll bridge, GCHQ, hospitals, roads and prisons all fall neatly under this category, and there are a large number of private funds, companies and organisations waiting to assist with PFI projects. Local authority finance has always been complicated, but it becomes more so when you consider 'credits' to lift restrictions on capital finance and the whole process for a PFI project to succeed. Sport and leisure PFIs are few and far between. Sports centres attached to schools have been included in PFI packages, but experience of the built projects tends to show that the contractor which operates the school is often not interested in opening the sports facilities beyond school hours, and the whole concept of community use is not in the contract. There is a scheme currently near to contract award in Crosby for Sefton Borough Council for a 25-metre swimming pool, sports hall and health and fitness facilities, but in the near future it looks unlikely that the Department of Environment, Transport and the Regions (DETR) will approve many schemes for sports facilities looking for credit approvals for PFI.

There has undoubtedly been a growth in companies wanting to offer complete facility management, often with huge financial resources behind them. Few of them, however, have real experiences of managing sports facilities, but this may be a skill they develop in the future.

One step removed from a pure PFI project is design, build, finance and operate (DBFO). There is more scope under this heading for leisure projects. A number of consultants like KPMG are currently looking at projects to rationalise sites owned by local authorities and use the revenue to finance rebuilding on one site and the involvement of a DBFO contractor. A useful built example of a similar approach lies in the Finchley Pool at Barnet in north London. THI developed this site with a multiplex cinema, tenpin bowling club and restaurants. The London Borough of Barnet sold two sites, one which contained an open-air pool and one a community pool. THI built a new 25-metre pool at Finchley, and the local authority used the combined revenue from the two sites sold to cover the operating costs of the new facility.

PRIVATE SECTOR FACILITY MANAGEMENT AND INVESTMENT

When compulsory competitive tendering (CCT) was first introduced in 1989, local authorities were forced to look to the private sector as potential operators of their sports and leisure facilities. Over the last ten years, the DETR carefully increased the length of the contracts so that they ran from between five and ten years. In the private sector, specialist companies developed to operate contracts for local authority leisure centres, and some contracts were awarded outside CCT on more flexible terms and conditions. Best value, introduced on 1st April, 2000, takes away the element of compulsion, but offers instead much more flexibility to both the public and private sectors. As the culture within many local authorities has developed to adopt a more enabling role, the political objections to involving the private sector in a contract for up to 25 years have disappeared. Local authorities are also attracted by the capital investment offered by the private sector.

Local authorities attracted by private sector investment

The market is still restricted by the number of private sector operators interested in operating local authority facilities, but there is potential for expansion.

In the early years of CCT there were market failures, and local authorities developed concerns about the longevity of their partners. These concerns have been largely assuaged by the development of companies now in the market and their financial security. Companies interested in operating local authority facilities on behalf of local authorities and offering capital and revenue investment include:

— Cannons Group plc
— CCL, 50 per cent owned by Apollo Leisure, which are now owned by SFX
— DC Leisure
— Holmes Place plc
— Leisure Connection (formerly Circa and Relaxion), owned by Kunick plc.

Longer contracts present greater investment opportunity

These companies are investing from £50,000 to £5m in return for contracts up to 25 years long. The longer the contract the greater the opportunity for investment. As an example, in the last two years CCL has invested £2.65m, matched by £1.4m in the same centres by the local authority. At the Queen Mother Centre and Jubilee Centre in Westminster, Cannons are investing £4m in return for a 15-year contract.

Private sector companies involved in best value contracts see them as real partnerships, and are not only prepared to invest capital, but also revenue, if this is the requirement of the local authorities. In one centre the local authority invested £500,000 to upgrade the facilities, whereby CCL reduced the management fee from £180,000 to a situation where they had to pay the local authority to manage the contract. Another local authority was offered £490,000 and a reduction in the fee of £50,000 per annum in return for a two-year extension on the lease from the local authority. In a third example Cannons Group already operated facilities for a local authority which had to save £2.5m from their leisure budget and lose 45 staff, three in sport development. Cannons offered to take over the sport development role in return for a longer lease or funds.

Initially, private sector contracts were almost all in the South-East and in leafy urban suburbs. Many more contracts are now being awarded elsewhere, in areas like Tower Hamlets and Liverpool. Rural contracts work too, particularly where either two local authorities work together, or there are a number of centres to manage.

The development of this market is assured, but unless more companies enter the market there is a danger that capital will run out. Some local authorities are still opposed to the concept, and many hide behind what they see as the perceived disadvantages. There is a perception that involving the private sector will increase prices, will not allow the disadvantaged or leisure-card holder free use or reduced entry charges, and will not offer the range of services offered by the DSO, particularly in areas like sport development. The truth is that the private sector will agree to most things so long as they are included in the contract, and this may require more revenue funding from the local authority. It is essential that the local authority decides what is to be included and puts this in the tender document to be priced by the private sector operator.

CAPITAL INVESTMENT AND HEALTH AND FITNESS FACILITIES

One question which is always asked is what will the private sector invest in, and the answer probably lies in the length of the contract. The major growth area is in health and fitness facilities, which bring the greatest return in the shortest possible time. It requires a longer contract if the local authority wants new changing rooms, or repairs to the swimming pool plant. The private sector are unlikely to be unreasonable, but they must make a return on their investment. It is worth thinking about what that investment should be before the private sector is invited to tender.

Private sector ROI

Within the commercial leisure sector, the provision of health and fitness clubs is a huge growth sector: 5.5 per cent of the population are now members of health clubs in the UK, compared with 10 per cent in the USA. It is estimated that £2bn will be invested in this sector within the next year, to build on the current 2,200 UK health and fitness clubs. The sector generates £972m in consumer spending and supports 23,000 employees. This sector is expected to grow steadily in excess of 10 per cent per annum.[5]

Private sector health and fitness facilities are often in direct competition with facilities owned by local authorities or sports clubs like rugby clubs. Both sectors see the need to invest in this market. For many local authorities the revenue from health and fitness facilities goes towards the upkeep of less viable swimming pools or sports halls. The private sector is likely to develop fewer facilities which do not cover their revenue costs, and charge more for the use of their centres.

Some local authorities believe that we are approaching a potential crisis for local authorities' facilities, illustrated at a recent conference by a director of leisure whose local authority includes Newark. This is a rural authority near Nottingham which recently faced competition from a new David Lloyd leisure centre in Nottingham and a community sports facility built with a new housing development under a Section 106 agreement. All those who could afford to pay joined either David Lloyd Leisure or went to the new sports facilities, and Newark and Shopwood District Council was therefore forced to close one of its facilities as it was so underused. The question asked by local authorities is what happens to those who could not afford the private sector facilities — where did they go to teach their children to swim and play sport?

Many in the private sector believe that the growth of private sector health and fitness facilities has created an increase in the number of those who participate and has not damaged local authority centres. They cite the concerns of the cinema industry about the growth of the multiplex, which in fact led to both small and large cinemas flourishing as more and more people visited the cinema. Some would also argue that the sort of people who can afford to use private sector health clubs would never have visited a local authority leisure centre. The private sector would urge more local authorities to enter into partnerships with the private sector. It is a fact that 80 per cent of local authorities contract out their waste management, but only 17 per cent of local authorities contract out the management of their sport and leisure centres. There are some good examples of pay-and-play sports facilities in Hull and Cardiff with private sector health clubs alongside. Can we not develop more of these types of facilities?

There is a need for local authorities to take an objective view of what they are offering residents, and where perhaps their role should be of enabler rather than direct provider. There is also a need for the local authority at the highest level of 'executive board', or now the new trend in local authorities governed by a 'cabinet', to ensure that their planning, economic development and leisure departments are working well together. The planning department could involve the leisure officers in offering a package of community use to the operators of the leisure centre near to the new housing. The enabling role of the local authority does need developing further, and sport and leisure must be a key issue in decision making for the future.

Partnerships are very much alive and here to stay in the leisure sector. How they develop will depend on the private sector market and growth of companies within this market, and the attitude taken by local authorities towards their non-statutory provision of leisure in the future.

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