

Report To: Corporate Governance Committee

Date of Meeting: 25 March 2015

Lead Member / Officer: Rebecca Maxwell, Corporate Director

Report Author: Rebecca Maxwell/Hannah Jones

Title: Clwyd Leisure Ltd - Review of Lessons Learned

1. What is the report about?

Clwyd Leisure Ltd (CLL) was established as an arm's length company by Denbighshire County Council in 2001 to take over the operation of certain coastal leisure facilities. The company ceased trading in early 2014. This report reviews the circumstances leading up to that failure and identifies lessons learned to minimise the risk of similar circumstances occurring again in future.

2. What is the reason for making this report?

Following the closure of Clwyd Leisure Ltd, Cabinet requested that officers undertake an internal review of the creation, management and monitoring of the company with a view to understanding what happened, confirming whether safeguards were now in place to prevent recurrence and identifying any further improvements needed. It was agreed that the report would be considered by Corporate Governance Committee.

3. What are the Recommendations?

Corporate Governance Committee is invited to consider the findings and conclusions arising from the internal review, and to endorse the recommendations set out within the body of the report in Appendix 1.

4. Report details

- 4.1 In March 2014, Cabinet agreed interim arrangements for the Sun Centre, the Nova Centre and the North Wales Bowls Centre following the failure of CLL, the arm's-length company that had been operating those facilities for the Council in Rhyl & Prestatyn. An earlier Cabinet in January 2014 had expressed continuing concern about poor performance levels at the facilities and had agreed to withhold payment as a result. Cabinet had also agreed that a due diligence exercise had uncovered too many risks to allow the Council to take over operation of the three facilities direct from the company. Shortly after this, CLL had ceased trading and closed all three facilities with immediate effect.
- 4.2 At its meeting in March 2014, as well as putting in place interim arrangements for the facilities, Cabinet also asked that an internal review be undertaken to establish what lessons could be learned from the current situation to minimise

the risk of similar circumstances arising again in future. It was agreed that while understanding the history and background, the review should focus on learning lessons for the future. Independently, the Head of Internal Audit had been asked to review the arrangements within the Council for governing and monitoring performance from its arm's-length organisations. This report sets out the findings, conclusions and recommendations from the desktop review commissioned by Cabinet, set within the context of the recommendations made by the Head of Internal Audit to improve overall governance of arms-length organisations.

- 4.3 A brief timeline of the history of CLL is set out within the review report. The company was established in 2001, following an options appraisal, to take over operation of designated coastal leisure facilities in Rhyl & Prestatyn from the Council to allow them to operate on a more commercial footing and reduce overall cost to the Council. The original vision was that surpluses generated by the company from its trading activities would be reinvested in the facilities to maintain their commercial appeal and generate further revenue. From the review, it is apparent that this did not happen, with reserves initially being accumulated but limited evidence of reinvestment and a continued reliance on Council subsidy by the company. The original intention of gradual withdrawal of Council subsidy, despite being agreed, was not documented in the Funding Agreement, making later discussions with the company regarding funding tense and difficult.
- 4.4 Although the original decision to set up CLL was based on an options appraisal, the review concluded that this was not followed through into the formal documentation establishing the company or its relationship with the Council. Not putting these in place from the outset contributed to weaknesses in monitoring and scrutiny arrangements and made it difficult for the Council to manage its relationship with the company. Roles and responsibilities were not set out and powers to intervene were unclear. Within the Council, scrutiny and monitoring arrangements were confused and multiple reporting lines are likely to have contributed to a lack of follow through.
- 4.5 Much has changed within the Council since CLL was originally established. More robust approaches to business case development and project and risk management make it unlikely that similar circumstances would occur now. Risk management is more firmly embedded within the Council and a clearer focus on performance management is now routine. The review identified that in the latter stages, the relationship with CLL was more robustly managed, with regular monitoring in place and improvement actions identified and followed up. The decisions made by Cabinet in January and March 2014 were significantly informed as a result of this more robust approach.
- 4.6 Recommendations for further improvements are set out in the review report. These are linked to the Head of Internal Audit's overall review of arrangements for ensuring appropriate governance and performance monitoring of arms-length organisations more generally. These include many of the points referred to above as weaknesses in the initial establishment of this particular arms-length company – robust business cases, detailed risk analysis and contingency planning, clear documentation and a focus on measurable objectives and performance measures. They also include

recommendations to improve Council oversight, scrutiny and monitoring – avoiding reliance on Council-appointed board directors as the sole means of governance and nominating relevant committees within the Council to consider the governance and performance of such arms-length relationships.

- 4.7 The Committee is invited to consider the findings of the review and determine whether the recommendations for improvement provide sufficient assurance regarding governance and performance management of arms-length relationships in the future.

5. How does the decision contribute to the Corporate Priorities?

While not directly contributing to corporate priorities, the improvements that will arise from this review will ensure good governance and use of public money when using Council-funded service providers.

6. What will it cost and how will it affect other services?

There are no financial consequences as a direct result of this report. The recommendations made in the review and associated arms-length organisations work by the Head of Internal Audit will assist the Council in its stewardship of public funds and resources.

- 7. What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision? The completed EqIA template should be attached as an appendix to the report.**

An EqIA is not required for this report.

8. What consultations have been carried out with Scrutiny and others?

The review was carried out on a desk-top basis. Relevant officers and Lead Members were consulted as the review was carried out. The Head of Internal Audit has supported the finalisation of the review and its recommendations.

9. Chief Finance Officer Statement

N/A

10. What risks are there and is there anything we can do to reduce them?

The review and associated work on governance and performance monitoring of arms length organisations is designed to improve the Council's management of risk in this area.

11. Power to make the Decision

Not applicable – information report only