2015

Clwyd Leisure Limited
Review of Lessons Learned

Cyngor sir ddinbych denbighshire County Council

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Purpose & Scope

Purpose of the review

Clwyd Leisure Ltd (CLL) was originally established as an arms-length company of Denbighshire County Council (DCC) in 2001 to take over responsibility for running DCC's coastal leisure facilities. Over recent years, both standards and visitor numbers at its facilities fell.

During the latter half of 2013, DCC commissioned a 'due diligence' review of CLL as part of exploring whether to take over the operations of the company, in response to its continued poor performance. The review identified significant concerns, which, coupled with the performance issues already being raised in relation to the company's operations, led DCC to terminate its relationship with CLL. CLL was wound up as a company in early 2014.

Given the importance of the facilities themselves and the level of public funding provided to CLL since its establishment, it is important to understand what happened, how performance fell, what lessons can be learned and whether similar situations could be avoided in future.

Scope of the review

At its meeting on 25 March 2014, DCC's Cabinet agreed to undertake an internal review to address the following points:

1. An understanding of the timeline and key events in the history of CLL – from the decision to establish the company in 2001 to its closure in 2014.
2. An assessment of the legal and other paperwork establishing the company and governing its relationship with DCC.
3. Identification of key roles and responsibilities – between DCC and the company, and for key personnel (officers and elected members) within DCC.
4. An assessment of the degree to which agreed governance and oversight arrangements were adhered to by all relevant parties, including the role/involvement of DCC's scrutiny committees.
5. Identification of monitoring and inspection reports considered by DCC and an assessment of any action taken as a result.
6. Identification of funding provided to CLL and an assessment of the degree to which it could be considered to represent value for money.
7. Lessons learned and recommendations for the future.

Out of scope issues

Investigation into the conduct of CLL itself, other than as is relevant to the points noted above, was agreed as outside the scope of the review.

Links to other reviews

DCC's Head of Internal Audit recently completed a review entitled *'An assessment framework for Denbighshire County Council to gain assurance on governance and performance from its 'arms-length' organisations'*. This report has already been considered by DCC's Corporate Executive Team (CET) and Corporate Governance Committee. The main aim of the report is to identify areas of good practice in establishing and monitoring arms-length organisations and this is now being developed into a framework for DCC to implement from 1 July 2015 to address the following key issues:

- Having guidance and consistent arrangements for setting up and recording arms-length organisations means that DCC will be fully aware of all such organisations that it deals with.
- Having regular and robust monitoring arrangements means that DCC will not fund arms-length organisations that do not deliver intended outcomes and will be aware of such organisations that perform poorly, operationally and/or financially.
- Having robust governance arrangements over arms-length organisations reduces the likelihood of failure in DCC's stewardship of public funds.
- Having early warning mechanisms through regular monitoring information reduces the likelihood that DCC will suffer financial loss due to an arms-length organisation ceasing to exist and should not have to step in with contingency arrangements to deliver services.
- Having robust business cases for approval of arms-length organisation arrangements means that DCC can ensure that they share its values and should not bring it into disrepute through their behaviour.
- Having robust legal agreements and service level agreements ensures that both organisations understand their roles and responsibilities and strengthens DCC's position in the event of dispute.
- Providing robust guidance and support to DCC's elected members and officers who sit on outside bodies protects their interests, improves the likelihood of robust scrutiny and clarifies the legal position and conflicts of interest relating to directorships and trustees.
- Overall, the framework means that DCC should not suffer significant damage to its reputation due to failure of an arms-length organisation.

This review report therefore addresses the scope outlined above, taking into account the good practice identified in the Head of Internal Audit's report.

How robust were the arrangements for setting up delivery of services through CLL?

Key Questions	Summary of Events	Conclusions
Did the decision to set up or engage with CLL follow an appraisal of options for service delivery?	In 2000, a feasibility study by an external consultant outlined three options for DCC's leisure facilities at the Sky Tower, Sun Centre, Nova Centre, and North Wales Bowls Centre: • Continue directly providing the service in whole or in part. • Contract with other organisations to provide the service in whole or in part. • Transfer the service on a partnership basis to an arms-length organisation. The benefits of externalising the facilities were identified, concluding that this was the preferred option, as it would reduce costs to DCC, potentially provide better options for private and third sector funding and allow exemption from certain taxes. It was intended that the savings made by the new organisation would be re-invested into each facility. The opportunities for savings to DCC were estimated at £119k per annum. In March 2001, Cabinet approved the establishment of CLL from 1 April 2001, approving grant levels for the first three years, subject to the right to vary the amount, depending on performance. Cabinet also approved the granting of leases for a term of 21 years for the Sun Centre, Nova Centre and North Wales Bowls Centre, and for 10 years for the Sky Tower. Finally, Cabinet approved the TUPE transfer of 53 members of DCC staff to the new organisation from May 2001.	Cabinet's decision in 2001 was based on an options appraisal carried out by an independent consultant. The decision was based on financial and operational benefits that favoured transfer to an arms-length organisation.
Was an overall statement of purpose of CLL expressed in key documents?	In April 2001, CLL was established with the Certificate of Incorporation, stating the agreement between both parties. The object of CLL was *'To provide, assist in the provision of, operate, supply and maintain facilities, attractions, goods and services for recreation or other leisure time activity primarily, but not exclusively for the community and visitors to Denbighshire.'*	The Certificate of Incorporation was a key document in establishing CLL and included a statement of purpose of the organisation that was clear enough as a 'vision' for the future.

Key Questions	Summary of Events	Conclusions
Did legal documentation setting up CLL and its relationship with DCC: **• establish clear limits to DCC's involvement?** **• include a timetable for achieving CLL's objectives?** **• state the circumstances under which the agreement could be amended or terminated?** **• establish clear roles and responsibilities?**	The Funding Agreement of March 2004 included the following: • DCC and CLL resolved to work in partnership to achieve common objectives for tourism and leisure services. • DCC was to provide financial assistance in return for the achievement of those common goals. • DCC reserved the right to vary, suspend, reduce or withdraw its funding if CLL breached any terms of the funding agreement, giving three months' notice. • DCC could terminate the agreement if CLL appointed a receiver or went into liquidation. • A section on dispute resolution However, the Funding Agreement did not establish roles and responsibilities and did not include specific limits to DCC's involvement, timetables for achieving objectives, or specific circumstances that could allow either party to amend or terminate the agreement.	Although a Funding Agreement was put in place, it was not specific enough to allow robust monitoring, e.g. SMART objectives, performance indicators, specific circumstances under which DCC could amend or terminate the agreement. By not being specific enough, the agreement left too much open to interpretation in terms of monitoring, who should perform what role, timetables, deadlines, implications of poor performance, breach of the agreement etc.
Did DCC ensure that robust legal and contractual arrangements were in place from the outset of the arrangement, including an exit strategy?	Although CLL was in place from April 2001, the sale of transfer agreement, common seal of DCC, funding agreement and lease agreements were not in place until 2004.	Not having relevant legal agreements in place from day one of CLL, left DCC vulnerable if CLL failed during its early years. Although the Funding Agreement when established was not specific enough to allow robust monitoring, DCC would have faced a difficult legal dispute if CLL had failed with no legal documentation having been put in place. No evidence was found during this review of a specific exit strategy, which is a fundamental part of a legal agreement to protect both parties.

How well did DCC understand the financial commitment and risk to which it was exposed through CLL?

Key Questions	Summary of Events	Conclusions
Did documentation setting up CLL and its relationship with DCC: • **define the nature of the financial relationship?** • **define DCC's commitment to CLL?** • **explain that DCC's contributions were not open-ended in duration or amount?** • **require minimum accounting and auditing standards?** • **define specific governance, finance and performance indicators that would give early warning of potential problems?**	The Funding Agreement of March 2004 included the following: • DCC's funding was subject to the monitoring and review processes included in the Agreement, measured by using agreed performance indicators. However, no performance indicators were specified and the following section of this report shows that monitoring was sporadic. • DCC would agree the funding based on CLL's business plan proposals. The funding was fixed from 1 April 2001 to 31 March 2004, with further funding to be agreed between DCC and CLL on application from CLL by 1 October each year, preliminary indication from DCC by 1 December each year, and final confirmation by 1 March. • CLL agreed to comply with statutory and best practice accounting requirements. • CLL was to provide DCC with a copy of its annual audited accounts within 10 months of the year end. Some copies of the accounts were seen during this review, but it was not established whether CLL complied with the terms of the Agreement in submitting them annually within timescale. In March 2001, Cabinet approved the first three years' grant to CLL of £350,970 for 2001/02, £351,275 in year 2 and £335,415 in year 3, subject to the right to vary the amount depending on performance. Once CLL was self-sufficient, DCC intended to gradually withdraw the subsidy, thus making the savings intended by transferring management to CLL; however, this was not specifically outlined in the Funding Agreement. During this review, no evidence was seen that the specific requirements of the Funding Agreement relating to agreement of DCC's annual funding after the first three years were adhered to by either party.	Although a Funding Agreement was put in place, it was not specific enough to allow robust monitoring, including no specific performance measures, whose role it was to report, monitor, escalate concerns etc. Although the Agreement included some specific requirements, such as deadlines for submitting business plans and funding applications, there is no evidence of these having been adhered to or of DCC insisting on compliance with the terms of the Agreement until late in CLL's existence. The Funding Agreement was weak in not requiring any specific actions from CLL in establishing robust governance arrangements, including completion of an Annual Governance Statement to be submitted to DCC for consideration. Although the Funding Agreement was not specific about reducing DCC's financial contribution, requiring an annual business plan and funding application did suggest that DCC's funding after the initial three years was not open-ended in duration or amount. Overall, the evidence suggests that the Funding Agreement was not as robust as it should have been and, even where it was specific in its requirements, it was not used or referred to when monitoring CLL's performance or compliance with deadlines until near the end of CLL's existence. Not having clear monitoring arrangements in the Agreement subsequently contributed to lack of clarity in monitoring in the ensuing years.

Key Questions	Summary of Events	Conclusions
Did documentation setting up CLL and its relationship with DCC include a written agreement about the transfer of public assets that safeguarded their title and use	The business plan included an outline of the leasing arrangements for the facilities as follows: • Sun Centre – 21 year lease with rent of £5,000 per year • North Wales Bowls Centre – 21 year lease with rent of £11,000 per year • Nova Centre – 21 year lease with rent of £5,000 per year • Sky Tower – 10 year lease with rent of £5,700 per year There were also specific leasing agreements for each facility that included: • permitted and restricted use and hours of use • terms of the agreement • initial rent and rent reviews • DCC's landlord option date • CLL's requirements for repair and redecoration • DCC's rights of inspection and entry • CLL's limits on alterations • CLL's insurance obligations • break options	As far as this review can tell, the documentation relating to the assets was robust, safeguarding their title and use but no evidence was found of strict implementation or monitoring of adherence to the agreements, particularly in the early years of the arrangements with CLL.
Was a formal risk assessment carried out and documented before entering into an agreement with CLL? **Did this risk assessment extend beyond financial risks to other areas e.g. reputational risk?**	The Funding Agreement included CLL's business plan, which identified some risks relating to the facilities, their maintenance, running costs, visitor numbers and seasonal cash flow, decline in tourism etc. However, there was no other risk assessment carried out by DCC to show the risks to itself relating to the transfer to CLL, the establishment and monitoring of the arrangements, achievement of objectives, financial risks, reputational risks etc.	Although some risks were probably considered at the time of the options appraisal, there was no formal risk assessment, which probably accounts for the lack of robust documentation for setting up and monitoring CLL. If key risks had been identified at the time, action could have been taken to manage or mitigate these before the arrangement was put in place.

Key Questions	Summary of Events	Conclusions
Were contingency plans put in place to ensure that service delivery could be maintained if the agreement were to end?	No contingency plans were found during this review.	Having contingency plans is established good practice within any organisation to deal with the unexpected, to increase the likelihood of continued service delivery and reduce the impact of disruption. Not having plans left DCC vulnerable to reputational risk if CLL failed, and parts of the county at risk of permanently or temporarily losing part of their leisure facilities and attractions.

How effective were DCC's arrangements for monitoring the financial and service performance of CLL?

Key Questions	Summary of Events	Conclusions
Considering the above questions on formal arrangements for monitoring CLL's performance, including roles and responsibilities, timescales and deadlines, did CLL comply with the Funding Agreement and did DCC ensure that it was complied with, to ensure that: • **CLL provided prompt reports on operational and financial performance?** • **CLL met all required deadlines and timescales for reporting?** • **CLL provided good-quality performance information?** • **CLL provided an annual assessment of its governance arrangements?** • **CLL's performance met required**	(See comments above relating lack of specific requirements of the Funding Agreement relating to performance monitoring) The Funding Agreement of March 2004 included a requirement for CLL to attend quarterly service and funding review meetings with DCC officers. A timeline of DCC's monitoring of CLL is included in Appendix 1. Over the period that CLL managed the four facilities, there was a significant amount of monitoring, including: • County Council, Cabinet & scrutiny committee reports • CET reports • presentations by CLL management • Wales Audit Office reports • consultant reports • task & finish group reports • general monitoring by operational management However, officer responsibility for monitoring CLL changed hands during this period due to staffing changes at senior levels, and elected member monitoring was often shared by two scrutiny committees, the latter in particular contributing to a lack of clarity and continuity in monitoring arrangements. There was also no monitoring of the overall governance arrangements in CLL. For example, at officer level, the following had monitoring responsibility over the period of CLL's operation: • 2001 – Director of Culture & Leisure • 2006 – Head of Countryside & Leisure • 2008 – Corporate Director: Environment	(See above conclusions relating to lack of specific monitoring requirements of the Funding Agreement) The Funding Agreement did not establish clear responsibilities for monitoring CLL's performance, either at officer or elected member level and this contributed to a lack of clarity and several monitoring gaps during 2001-2010. There was regular monitoring early in the arrangement but elected member monitoring in DCC committees was sporadic and did not occur at all for long periods. This was not helped by DCC not clearly establishing which scrutiny committee would be responsible for monitoring CLL's performance, contributing to DCC not resolving issues early in the arrangement. Having DCC elected member representation on CLL's Board as Directors meant that their allegiance was to CLL rather than DCC, thus creating an awkward conflict of interest. In hindsight, DCC should not have relied solely on its Board representation to cover its interests. There was also a failure to act on complaints received about CLL's operations and newspaper reports on serious health and safety and equalities issues from as far back as 2006, that could have raised concerns in DCC, both at senior management and elected member levels. There was, however, a change of approach in 2011, as the Head of Leisure, Libraries & Community Development notified CLL of more formal monitoring arrangements that were in line with the initial Funding Agreement. This monitoring was then introduced and continued for the remainder of the arrangement with

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standards to achieve its objectives? • where CLL's performance fell short of the required standards, actions were identified and monitored to improve CLL's performance? • CLL provided DCC with audited accounts each year?	• 2010 - Head of Leisure, Libraries & Community Development At elected member level, over the years, CLL reports were presented to: • Lifelong Learning Scrutiny Committee • Environment & Regeneration Scrutiny Committee • Resources Scrutiny Committee • Cabinet DCC also had elected members on the Board of CLL but, as they were directors of CLL, they owed duties in law to CLL and were bound to take decisions without being influenced by the fact that they were DCC Councillors. Their primary duty was to make decisions in the interest of CLL. Within the timeline in Appendix 1, there are some key points worth highlighting: • The first evidence of an elected member monitoring report was at Lifelong Learning Scrutiny Committee in March 2002, although CLL commenced operation in April 2001. • Although this review found no evidence of officer monitoring and quarterly meetings early in the relationship, there was a report to Lifelong Learning Scrutiny Committee in April 2002 that referred to quarterly officer monitoring being in place. The Committee raised some concerns over CLL's viability, even at that early stage, but received assurance from DCC's senior management. Members requested quarterly monitoring by the Committee but the next report was not until September 2002. • The minutes of the above Committee show evidence of good scrutiny and, in September 2002, it requested further reports, but this review found no evidence of further reports to this Committee until December 2007. • Cabinet requested the first study into CLL's finances in November 2006 but a report did not appear until over a year later and there is no evidence of elected member or CET monitoring at this stage. This review found no evidence of officer monitoring of CLL during this period but, if it was in place, it did not escalate any significant	CLL. While there were periods during the arrangement where this review found little or no evidence of monitoring, there were also periods where several formal reviews, internal and external were carried out in quick succession, particularly between 2008-11. At one stage CET formed the view that too many reviews had been carried out. While this is true, the value of these previous reviews must be called into question, as they had not led to a significant improvement in CLL's performance or addressed the concerns raised. It is evident that some of these reviews took a long time to complete and for reports to be produced and, in some cases, reports did not appear on the agenda at formal CET or elected member meetings, bringing into question the effectiveness and value for money achieved in some of these reviews. There is, though, plenty of evidence that CET was kept up to date on reviews and other issues with CLL in later years, either through email or reporting to informal CET meetings. However, in terms of DCC's governance arrangements, there are some evident weaknesses in management of reviews. It seems that there was not a co-ordinated approach to commissioning reviews, deadlines were not always set for reporting and no agreement was set on where the report should be reported to. Also, where deadlines were set for reporting, they were often missed. At times, communication between CLL and DCC was poor, leading to particular problems in 2012 when mixed messages about the deferring of the subsidy reduction led to the relationship becoming strained. Later, CLL claimed that it was not kept updated on reports being produced within DCC that then entered the public domain, although DCC claims that there was nothing new within the reports and CLL was fully

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	concerns to senior management or elected members. • In December 2007, Cabinet decided on closer monitoring of CLL and set up a group for this to work closer with CLL. There was acceptance that the relationship had not been maintained. • During 2008, there was an escalation in monitoring e. g by working groups, Wales Audit Office (WAO) and DCC management. A WAO discussion paper highlighted that CLL may be in breach of its leases, but no evidence was found of this report being formally considered at senior management or elected member level. There was also work by the Corporate Director: Environment, starting to look at options for CLL, which led to a reorganisation of CLL's senior management. • In February 2009, a WAO report was produced on leisure services that included a specific recommendation relating to CLL. While progress on the other six recommendations was regularly reported to Corporate Governance Committee, there was some confusion over the monitoring of the CLL recommendation that initially went to Lifelong Learning Scrutiny, which agreed that the recommendation was being monitored by Resources Scrutiny, but then it was eventually reported to Environment & Regeneration Scrutiny. • In April 2009, an update report to Environment & Regeneration Scrutiny Committee, stated that there was more confidence in CLL's new management team. Members asked for, and received, an update in December 2009, which raised no serious concerns about CLL. • By March 2010, reports on the coastal attractions and work on regenerating Rhyl were starting to appear. • In November 2010, a report to CET by the Head of Leisure, Libraries & Community Development suggested bringing the CLL portfolio back under DCC's control as part of the wider review of Rhyl's regeneration. • In March 2011, CLL was notified that formal monitoring arrangements of CLL's financial and operational performance were being introduced by the Head of Leisure, Libraries & Community Development. • In May 2011, the Head of Leisure, Libraries & Community Development suggested to CET that there should be a major review of CLL but CET wanted a less comprehensive review, as this was the	aware of the situation. While this review cannot state whether this is the case, DCC did learn lessons from this later, as the Corporate Director: Customers ensured that CLL's Board Chair was kept fully informed in writing when DCC was considering taking over CLL and the due diligence exercise was arranged, right through to the time when CLL went into administration. There was also a significant level of correspondence from DCC relating to improvements required of CLL to its safeguarding and pool testing arrangements, which were also chased up at the monthly monitoring meetings with CLL. This highlighted the importance of using formal communications, rather than just relying on meetings and verbal discussions. Up until 2010, although concerns were raised by elected members in DCC meetings and reviews were commissioned and carried out, DCC does not seem to have got to grips with monitoring CLL until the Head of Leisure, Libraries & Community Development was given the responsibility, leading to regular, minuted monitoring meetings at officer level and regular reports to CET, although the first report to elected members on the proposals for CLL was not until January 2013. However, from this point onwards, senior management and elected members were kept well-informed of developments that eventually led to CLL surrendering the leases. Given the level of monitoring at some stages, there were missed opportunities to address CLL's poor performance, even though the Funding Agreement did not provide specific performance measures. For example, in 2008, there were questions over whether CLL was financially viable and it may have been in breach of its lease arrangements, but no action was taken to escalate these issues, although the Corporate Director: Environment appeared confident that new senior management arrangements in CLL would

Key Questions	Summary of Events	Conclusions
	fourth review of CLL. • The above review was very detailed and took a long time to complete and for a report to be produced. A final draft was seen during this review dated November 2012 but no evidence was seen of it being reported to formal CET or elected members, yet it raised serious concerns with 40 recommendations. There are various references to the report being presented to CET during summer 2012 but it was not evidenced in the CET reports or minutes. However, it is evident that that this report was discussed and actioned, as later correspondence shows that DCC shared the report with CLL and there is a lot of correspondence from DCC chasing up significant actions required by CLL as a result of the report, particularly relating to safeguarding and pool testing arrangements. • In September 2012, the relationship between CLL and DCC became strained, due to CLL believing that DCC was withdrawing its planned subsidy reduction for three years. There is evidence in meeting minutes that substantiated this claim, but the Head of Leisure, Libraries & Community Development had written to CLL stating that it was a one-year deferral of the subsidy reduction and this was CET's understanding of the situation. • In January 2013, Cabinet received a report on proposals for the regeneration of Rhyl. CLL was upset at this report, claiming that it had not been consulted on the report. DCC acknowledged this and clearly improved communication later. • In April 2013, DCC suggested that it would withhold funding unless CLL addressed key issues arising from a review of its operations, particularly relating to safeguarding issues. • In June 2013, CLL first suggested that it wished to surrender the leases and for DCC to take over CLL, so CET commissioned a due diligence review of the organisation. From this point, there is evidence of a lot of correspondence, communications and meetings between CLL and DCC, as well as regular formal updates to CET and elected members. • The due diligence exercise was carried out by an independent consultant in September/October 2013.	improve the organisation. It seems from the evidence that CLL was given every chance to improve and succeed.

Key Questions	Summary of Events	Conclusions
	• DCC's Head of Internal Audit carried out additional work to support the due diligence exercise in November/December 2013. This work raised further concerns, particularly relating to HR and governance matters. • Cabinet agreed a report on the future of CLL on 14 January 2014, recommending that it was too great a risk to DCC to take over CLL. It also recommended that, due to continued poor performance with no evidence of the ability of CLL to recover/rectify together with the results of the due diligence exercise, DCC ceased to fund CLL from 1 April 2014. The results of the due diligence exercise showed that the DCC funding was not assisting in maintaining or improving tourism or that the leisure services operated by CLL continued to demonstrate best value to DCC.	
Did DCC ensure that its external and internal auditors had right of access to key records of CLL and to any explanations they may consider necessary from representatives of CLL?	The Funding Agreement of March 2004 included a requirement of CLL to co-operate with any auditing requirements that DCC required; however, DCC did not exercise this option until November 2013 when the Head of Internal Audit was asked to carry out some work following the external due diligence exercise.	The work carried out by the Head of Internal Audit found several areas of bad practice in CLL that could have been highlighted much earlier and action plans put in place to improve the organisation's operational management and governance arrangements. While this would not necessarily have led to the survival of CLL, the situation and risks DCC later faced when considering the take-over of CLL would have led to a smoother ending to the relationship and potentially less damaging press coverage.

Summary of Conclusions

The CLL arrangement was the first such arrangement that DCC entered into and it did not have any framework in place to follow or previous experience to draw on.

Although the original decision to set up CLL was based on an options appraisal, the impression gained during this review is that the formal arrangements were rushed and failed to put in place robust legal and monitoring documentation, risk assessments, contingency plans, exit strategies, communication arrangements, internal audit arrangements etc. Not putting these in place from day one, contributed to a failure on the part of DCC to robustly scrutinise and monitor CLL's performance and delivery of outcomes and to take remedial action at an early stage. It is also concerning that legal documentation was not signed until 2004, three years after CLL was established.

Although there was regular monitoring early in the arrangement, elected member monitoring within DCC committee meetings was sporadic and did not occur at all for long periods. There were also opportunities for elected members and senior management to take action but what could have been early warnings were not heeded. For example, there were complaints received about CLL's operations and newspaper reports on serious health and safety and equalities issues from as far back as 2006, that could have raised concerns in DCC. There were also various uncoordinated reviews commissioned of CLL that this review had difficulty in tracing through to final reports and action plans that could be enforced and monitored through a scrutiny committee.

The establishment documentation for CLL did not clearly set out the roles and responsibilities for monitoring, the scrutiny carried out was not vigorous enough to challenge CLL's poor performance and concerns were not escalated. In fact, the responsibility for monitoring within DCC over the years passed between various scrutiny committees until 2011, when monitoring responsibility passed to the Head of Leisure, Libraries & Community Development and regular monitoring and communication was put in place in line with the initial Funding Agreement. This monitoring was then introduced and continued for the remainder of the arrangement with CLL.

This review also calls into question the role of elected members on boards, as DCC had two members on CLL's Board as directors for most of CLL's life, but this meant that their duty was to represent and make decisions on behalf of CLL rather than DCC, creating a conflict of interest.

All in all, this review shows that DCC did learn lessons and implement improvements in its monitoring arrangements for CLL. For example, allocating responsibility to the Head of Leisure, Libraries & Community Development led to a robust monitoring regime and improved communication. While improvements, such as developing a partnership framework and project management methodology mean that DCC would not repeat many of the shortcomings shown in this report, there are additional specific recommendations that DCC should implement relating to arms-length or similar arrangements that it enters into in the future.

Recommendations

The following recommendations arise from the above review of CLL and also include some key requirements arising from the Head of Internal Audit's review referred to in the scope of this report.

- Where services are delivered through 'arms-length' organisations, DCC should have a well-developed and soundly-based strategy for the delivery of services in this manner that is clearly linked to its wider strategic objectives and priorities.
- Any future arrangements for using 'arms-length' organisations for service delivery should use DCC's framework (due for implementation in July 2015) that will provide guidance on establishing and monitoring Council-funded service providers. This will include ensuring that there are robust business cases, legal arrangements, leasing agreements, funding arrangements, risk assessments, measurable objectives and performance indicators, transparent monitoring arrangements and responsibilities, escalation procedures for non-compliance or poor performance, an exit strategy and contingency arrangements in case of failure.
- DCC should maintain a central database of funded bodies, including a checklist of documents required/seen e.g. constitution, deeds of trust, last audited accounts, memorandum and articles of association, bank statements, and signed undertakings from members of management committees.
- Where DCC appoints representatives to boards of 'arms-length' organisations in a trustee or directorship position, it needs to ensure that it has alternative arrangements in place for monitoring performance and governance rather than relying on its board representation. Training and support should be provided to DCC representatives so they are clear about their responsibilities to DCC and the 'arms-length' organisation.
- DCC should maintain a corporate register of all financial commitments to 'arms-length' organisations to assess its overall commitment. Financial vetting should be undertaken by a qualified accountant, for example, DCC could designate an accountant to each funded body depending on funding level.
- DCC should designate one committee to scrutinise performance of 'arms-length' organisations – including governance arrangements, performance, risks, financial management, legal obligations, leasing arrangements, partnership working, contractual compliance and equalities compliance. It should also have a nominated lead department for each 'arms-length' organisation to coordinate monitoring functions and grant payments.
- Monitoring arrangements for 'arms-length' organisations should be implemented as laid down in the formal documentation and concerns promptly escalated to the relevant level for remedial action to be taken at an early stage.
- It is important to maintain good communication with 'arms-length' organisations and to ensure that any key decisions are documented in case of dispute.

- Internal audit should undertake a ‘health check’ of a sample of funding relationships each year.

Appendix 1 – Timeline relevant to DCC's monitoring of CLL

March 2002	CLL's Chief Executive and Finance Manager reported at Lifelong Learning Scrutiny Committee that CLL had met its financial goals during its first year of operation and had significantly improved the facilities and the services offered to customers. The Committee raised various questions about operational and financial management, future grant funding, marketing strategy, planned maintenance programmes and community focus.
April 2002	At Lifelong Learning Scrutiny Committee, an elected member raised concerns over whether CLL would continue to be viable after the initial three-year period of DCC funding. The Assistant Director of Culture and Leisure confirmed that, in accordance with the funding agreement and contract, the grant funding had been tapered over the three-year period and a review of the future level of funding would be undertaken in the third year. It was anticipated that there would be an increase in grant funding for CLL from external sources to enable DCC's financial contribution to be reduced. The Assistant Director also reported that DCC held regular meetings with CLL, that CLL provided quarterly performance reports and that a DCC officer attended CLL Board meetings. Another elected member stressed the need to continue with quarterly monitoring of CLL's performance, so a further report was requested from CLL at the Committee's June or July meeting (this report was not provided in June 2002, as CLL's CEO was not available to attend the meeting).
September 2002	CLL's Chief Executive reported at Lifelong Learning Scrutiny Committee on CLL's performance from April-July 2002. The Committee raised various questions on operational and financial management, health and safety issues, future investment in the facilities, the decline in admissions, rebuilding of the customer base, and insurance provision and liability. The Corporate Director of Resources felt that a balance sheet or cash flow information should be provided in addition to the profit and loss information and the Committee requested that the Corporate Director liaise directly with CLL to arrange for that financial information to be incorporated into the next progress report for consideration by the Committee. The Committee requested a further progress report.
April 2003	Cabinet confirmed DCC's agreement to sign the leases for the transfer of the four properties to CLL. This report also raised concerns over some health and safety arrangements on the sites and that DCC's Health and Safety Manager had visited to provide guidance. The report also mentioned that CLL was indicating that it would require funding after the initial three-year period at an increased level.
October 2003	Cabinet expressed its concern that the Sale and Transfer Agreement had not yet been signed and that DCC would have to underwrite any debts in the event of CLL ceasing to operate.
January 2005	At Lifelong Learning Scrutiny Committee, the Head of Countryside & Leisure explained the rationale behind the reduction in grants to external organisations and that over 50% of the total grant value was allocated to CLL, so DCC proposed to implement a 7.5% reduction in CLL's grant funding. The trading accounts for CLL at that time showed £227k surplus and it was felt that it could sustain a higher reduction than the other external organisations. CLL was already subject to a tapering grant and had been forewarned over the last few months that there could be a reduction in its grant of between 5% - 10%.
March 2005	The first concerns were raised over CLL's financial performance. DCC managed CLL's creditor payments and payroll service but CLL owed DCC over £700k. The Corporate Director of Resources expressed his concern over the financial projections of CLL. The Sun Centre had experienced a 13% reduction in income, the Nova showed similar trends, while the Sky Tower was just breaking even. However, CLL's reserves were £193k, so it still had funds to invest in the facilities.

November 2006	Cabinet endorsed a joint study to be carried out by an external consultant on behalf of the Council and CLL to review CLL's financial capacity to manage the facilities. CLL had been asked for a two-year cash flow forecast and their financial accounts.
November 2007	The Director of Environment requested an independent review on CLL's financial position as he considered that it was not sustainable beyond 12-18 months.
December 2007	The joint study report from November 2006 was presented to Lifelong Learning Scrutiny Committee, which expressed concern that the full report was not available for scrutiny and that the imminent Cabinet report should be deferred.
	Cabinet considered the same report later in the month and was informed of the likely net financial position of CLL at 31 March 2008. Members resolved to accept the report and to evaluate the proposals in more detail with CLL, taking immediate steps to re-establish relationships with CLL through new Strategic & Operational Liaison Groups. Cabinet also requested a business plan and financial recovery strategy from CLL and agreed to set up a task and finish group consisting of elected members and officers. A further report was to be presented to Cabinet in January 2008.
January 2008	Representatives from CLL attended Lifelong Learning Scrutiny Committee on 8 January to answer questions on the joint study. Members asked various questions and raised concerns over lack of communication between DCC and CLL. The Committee resolved to receive regular progress updates from the newly established Clwyd Leisure Strategic Liaison Group, electing one of its members to sit on the Group.
	Cabinet was informed that the Task and Finish Group had met and had asked the external consultant for further work, with a report to Cabinet due in February 2008.
May 2008	Due to DCC's concerns about CLL's financial performance, Wales Audit Office (WAO) produced a discussion paper as part of its regulatory work to identify possible areas for improvement. The WAO paper highlighted that DCC believed CLL to be in breach of its lease, as it had not adequately maintained the properties and because of its trading position. The paper identified several areas of concern and raised several questions for DCC; however, it is not clear where this report was considered and there is no evidence of it being presented to elected members.
July 2008	The Corporate Director: Environment produced a discussion paper on CLL to set out some options over CLL's future. The paper identified that management relationships between DCC and CLL had occasionally been difficult, leading to disputes and unresolved issues. It suggested that the future of CLL was in doubt due to declining use of the facilities and that its management structure should be changed. It suggested urgent action to discuss with CLL's Chairman and senior Board members that CLL's CEO should be replaced and a more commercially-focused management team put in place.
February 2009	Representatives from CLL provided a presentation to Resources Scrutiny Committee. Elected members asked various questions, particularly in respect of CLL's future and it was agreed that the Corporate Director: Environment should provide the Committee with an update in April 2009 on the development of options for the future of the facilities managed by CLL.
	WAO produced a report on Leisure Services that covered a wider remit than CLL. The report included seven recommendations, one of which related specifically to CLL, suggesting that, as a matter of urgency, DCC should *"…agree a way forward for addressing problems associated with CLL's management of leisure facilities…"*
March 2009	The above report was presented to Corporate Governance Committee. The Committee resolved that overall responsibility for the recommendations arising from the report be allocated to the Lead Member for Children's Services and Deputy Lead for Lifelong Learning and allocated to the Lifelong Learning Scrutiny Committee for monitoring.

April 2009	The WAO report was presented to Lifelong Learning Scrutiny Committee by the Head of Leisure and a representative of WAO on 22 April 2009. Members were informed that the CLL aspect of the report was being monitored by the Resources Scrutiny Committee. The Committee resolved that it should continue to monitor the implementation of the recommendations in July 2009.
June 2009	The Corporate Director: Environment reported to the Environment and Regeneration Scrutiny Committee on progress in relation to CLL. He referred to the financial position of CLL and age and condition of the facilities. He highlighted that the future of CLL assets would play an important role in the development of DCC's approach to regeneration of the North Wales coast between Prestatyn and Colwyn Bay. He also stated that improvements had been made in CLL since a restructuring but that it needed further support to improve its position, with the longer-term proposals in his report leading to the development of a series of projects to refurbish or redevelop the facilities. The Committee requested a further report in December 2009 to provide an update on CLL's financial position.
July 2009	Resources Scrutiny Committee agreed that CLL reports would be considered by the Environment and Regeneration Scrutiny Committee in future to avoid duplication and role confusion.
December 2009	The Corporate Director: Environment reported to the Environment and Regeneration Scrutiny Committee, providing an overview of CLL's financial position, operational issues and development proposals. Members asked various questions and agreed to visit the facilities on 2 February 2010.
February 2010	Elected members visited CLL facilities.
March 2010	Environment and Regeneration Scrutiny Committee considered the Corporate Director: Environment's report updating members on the appointment of an external consultant to the Rhyl Attractions Redevelopment Project. The consultants presented a vision and options for the coastal area but the Committee requested an additional report on proposals for the Nova Centre in approximately three months' time.
July 2010	External consultants produced a report entitled *'Organisational Development Review'* following a request by DCC and CLL. The report included recommendations for improvement, but there is no evidence of the report being considered by elected members.
October 2010	The Head of Leisure, Libraries & Community Development set up monitoring arrangements of CLL at officer level.
November 2010	CET considered a report on CLL and DCC's major arts facilities that provided a range of options from stopping subsidy altogether through to expanding the role to encompass other DCC assets. The suggested option was to negotiate with CLL to bring the asset portfolio back under DCC's control, as this would benefit DCC in its regeneration plans for the area.
January 2011	The Head of Leisure, Libraries & Community Development provided a verbal report at the request of the Environment and Regeneration Scrutiny Committee relating to the Nova Centre and other coastal facilities. The Committee was informed of the new monitoring arrangements for CLL and the need to generate a business case with a view to generating more income to sustain and improve CLL's trading position. He explained that he was pleased with the development of the CLL Board. The Committee accepted his report and noted the current position.

February 2011	External consultants produced a report entitled *'Review and Options for Future Provision of the Leisure Officer for Rhyl and Prestatyn'* following a request by DCC and CLL. The report included recommendations for improvement on a wider remit than CLL, but there is no evidence of the report being considered by elected members. In relation to CLL's facilities, the report suggested that it was difficult to make a case for two strategic public swimming pools in Rhyl and Prestatyn, and suggested closure of the Nova. It also suggested a move away from large landmark facilities, such as the Nova and Sun Centre towards a new aquatic centre within the town centre envelope.
March 2011	CET received a report on the Sky Tower from the Council's Property Manager, referring to the condition of the facility and the fact that the lease was due to expire on 31 March 2011. The report concluded that CLL had not adequately maintained the facility under the terms of the lease and that it was now unfit for operation. CET agreed not to renew the lease until the required work was undertaken.
	CLL's financial statements for the year ended 31 March 2011 included an Independent Auditor's Report stating that CLL was reliant on DCC's continued financial support but that this could not be confirmed as sustainable. CLL had negative reserves of approximately £460k due to the position of the pension deficit scheme.
	The Head of Leisure Libraries & Community Development wrote to the Chair of CLL's Board confirming the new arrangements for financial monitoring of CLL. The letter also confirmed that DCC's subsidy for 2011/12 was to remain the same as the previous year but that DCC would reduce its subsidy in subsequent years, stating an indicative expectation of a £50k per year reduction for three years from 2012. The letter also explained that DCC had appointed a Business & Performance Officer to act in a liaison role between DCC and CLL to provide support and introduce regular financial and operating performance monitoring processes. CLL would be required to provide monthly income and expenditure accounts and cash flow statements, and an annual budget projection in advance of the following year.
May 2011	The Head of Leisure, Libraries & Community Development reported to CET on CLL's current financial position and to seek 'spend to save' funding for a project to review the operation. The report mentioned that DCC would like to reduce the annual subsidy by £50k from April 2012. A project brief and 'spend to save' bid were presented to CET, with the scope to include organisational capability, operational capability, business planning and marketing, and the corporate environment. CET was concerned that this was the fourth review of CLL and was not clear whether the results would be any different to previous reviews. Also, CET felt that the parameters of the review needed to be clear in terms of the regeneration of Rhyl, so it suggested that a less comprehensive review be carried out. The Head of Leisure, Libraries & Community Development therefore emailed CLL to arrange a meeting to discuss the scope of the review, to ensure that it focused on areas that had not previously been reviewed to avoid duplication.
July 2011	The first of the monthly monitoring meetings was held with CLL.
October 2011	CET received an update on an incident with the roof at the Sun Centre. CET agreed that the Corporate Director: Regeneration & Business Transformation should set up a group to discussed a detailed analysis and report back to CET.
November 2011	The Head of Leisure, Libraries & Community Development reported to CET on an initial options appraisal for the Sun Centre. CET agreed that he should discuss the option of CLL carrying out the remedial work with CLL. At its next meeting, CET agreed that it needed to gain an understanding of the cost of repairing the Sun Centre roof. The Corporate Director: Regeneration & Business Transformation was tasked with preparing a report to informal CET later in the month covering the costs and risks.
January 2012	CET minutes show that two sets of costs were presented to it on the repairs to the Sun Centre roof but that to be able to open in compliance with health and safety regulations would cost £157k.

March 2012	CLL's financial statements for 2011/12 included an Independent Auditor's Report stating that CLL was reliant on DCC's continued financial support and that there had been a staged reduction in DCC's grant funding, but that the Board had prepared management projections to demonstrate that CLL was deemed as a going concern within that context. CLL had negative reserves of approximately £857k due to the position of the pension deficit scheme.
May 2012	CET minutes record that it requested a report on CLL on 11 June 2012 from the Programme and Project Team Manager but this report was delayed.
June 2012	A copy of the draft report 'Review of Clwyd Leisure Ltd.' by the Programme and Project Team Manager stated that it would be presented to CET and shared with CLL's Board. It covered the condition of the properties, health and safety concerns, business management systems, financial viability, leases and HR issues.
August 2012	The Head of Communication, Marketing & Leisure gave CET a verbal update on CLL. A review paper was due to be presented to CET on 1 October 2012.
	The Head of Communication, Marketing & Leisure wrote to the Chair of CLL's Board to confirm that DCC's monitoring arrangements were still in place for CLL and that the subsidy was expected to reduce by £50k in 2013 and thereon for a further two years.
September 2012	CET minutes for 17 September state that *the 'Review of Clwyd Leisure Ltd.*' report had been submitted to the Head of Communications, Marketing & Leisure for presentation to CET on 1 October 2012 but it was not presented on that date.
	On 21 September, the CEO received an email sent on behalf of the Chair of CLL expressing concerns about the relationship between DCC and CLL. The email referred to a good relationship built up with the Corporate Director: Regeneration & Business Transformation, including that she apparently informed CLL's Board that the proposed £150k reduction in DCC's funding for 2012/13 to 2014/15 would not be implemented and that she confirmed this in emails dated 29 November 2011, 30 November 2011 and 13 March 2012. The concerns had now arisen due to CLL receiving a letter from the Head of Communication, Leisure & Marketing referring to a one-year deferment of the grant reduction rather than a three-year withdrawal of the reduction. A report on the Sun Centre by the Corporate Director dated 28 November 2011 states that *"It is proposed that DCC do not adjust the current level of subsidy provided to Clwyd Leisure for the next three years…"* The Corporate Director: Customers replied to the Chair of CLL stating that the understanding of CET was that the subsidy reduction would only be relaxed for one year to allow the Sun Centre roof to be repaired by CLL and that he had contacted the previous Corporate Director who confirmed this view. The response clearly states that the £50k subsidy reduction would be applied in 2012/13 and 2013/14.
October 2012	The Head of Communications, Marketing & Leisure & Head of Housing & Community Development reported to CET on an options appraisal and way forward for the Rhyl Pavilion and Sun Centre following a feasibility study by the DCC's leisure development partner. The report highlighted the poor standard of leisure provision and building condition at the Sun Centre, CLL's failure to maintain the facility, and the concerns over financial viability of CLL. The proposed options formed part of a wider review of leisure and visitor provision in Rhyl but clearly stated that CLL was not a viable management option for the future. CET agreed to support the proposed way forward and delivery options, to look at a business case and discuss again after more work had been done. CET emphasised the need to communicate with CLL and for a report to be presented to Cabinet briefing.
November 2012	A revised draft of the report "*Review of Clwyd Leisure Ltd.*" dated 1 November 2012 includes a lot more detail about the review and its outcomes, including the proposed continuation of grant reduction from DCC in 2013/14 and for the next three financial years. The report includes a risk register with 27 risks identified to deal with the issues highlighted in the report and a recommendations section with 40 recommendations.

	The Head of Communications, Marketing & Leisure and Head of Housing & Community Development presented a report to CET on 26 November on the next steps following the October options appraisal for the Rhyl Pavilion and Sun Centre. In relation to CLL, the update stated that initial discussions had been held with CLL with regard to an exit strategy for the trust in Rhyl, allowing it greater focus on the Nova. The report also included progress on recent work undertaken that included a recommendation to demolish the Sun Centre and improve the Pavilion Theatre. Attached to the report was a full report by DCC's leisure development partner called *'Development Proposal for The Regeneration of Rhyl'* that provided more details on the proposals and indicative costings. CET agreed that a shadow board be set up for this programme of work.
January 2013	On 15 January, Cabinet received a report on the above proposals that included recommending the acknowledgement of the principle of demolishing the Sun Centre. The Cabinet report stated that further consideration needed to be given to the Nova Centre options as Part 2 of the Project Plan to report back in March 2013. The Cabinet minutes state that the Leader wished to clarify the references to CLL within the report, advising that DCC also had a responsibility for the leisure offer and he reported upon the difficulties in maintaining and investing in the Sun Centre for various reasons. After a positive discussion on the proposals, Cabinet approved the proposed projects in principle.
February 2013	CLL wrote a detailed letter dated 28 February to DCC's CEO regarding the Cabinet report of 15 January 2013, as it had sought legal counsel due to what the letter referred to as …"*serious implications of the report on the future of Clwyd Leisure".* The letter sought clarification of the relationship between CLL and DCC, the future of the Sun Centre and CLL, stating that it had not been consulted on the report, which included references to it not being a viable management option for the future. The letter mentions CLL earmarking its cash reserves for redundancy payments and other associated winding up costs and requested an urgent meeting with DCC to discuss a way forward. The letter also included legal advice relating to lease agreements between DCC and CLL.
March 2013	CLL's letter was acknowledged and then responded to on 12 March by DCC's CEO. The letter conceded that DCC should have shared the Cabinet report with CLL, although CLL was aware of the issues covered in the report from previous discussions. DCC's response acknowledged that it could not terminate the Sun Centre lease and stated that there had been regular communication about reducing DCC's subsidy. The response welcomed further discussion with CLL and highlighted the fact that DCC had requested an invitation to CLL's Board since July 2012. An offer was made for CLL to be represented on the shadow project board for the proposed aquatic centre.
April 2013	On 9 April, CLL responded to DCC's letter of 12 March highlighting its continued concerns over the Cabinet report and its impact on CLL's employees. The letter disputes CLL's awareness of the proposed content of the Cabinet report. CLL also gave formal notice that it did not consent to the grant reduction of £50k from 1 April 2013, quoting the terms of the funding agreement and requesting reinstatement of the grant to the 2003/04 level of £335,415. The letter asked for some meeting dates in the next two to three weeks.
	DCC responded to this letter on 25 April agreeing that a meeting was needed, suggesting either 14 May or 21 May. The letter concluded by mentioning that DCC had written to CLL twice asking for its response to the *"…Review of Clwyd Leisure completed last year.",* which confirms that the report was shared with CLL.
	A further letter requesting a response to key issues raised in the report on CLL was sent to CLL on 29 April following CET on that same date. The letter cited the funding agreement requiring CLL to provide the information and that DCC would consider withholding funding until assurance was provided by CLL.
May 2013	CLL responded to DCC on 3 May regarding the review of CLL report explaining actions being taken to address safeguarding issues and pool testing.

June 2013	CLL's Board met on 4 June. The agenda for the meeting shows that there was to be discussion with DCC on the funding agreement and a way forward.
	Following the above meeting, it was apparent that enhanced CRB checks were not in place for lifeguards at the Sun Centre. The Corporate Director: Customers emailed CLL's General Manager on 6 June to express DCC's concern relating to CLL's safeguarding arrangements, requesting information on all CLL employees requiring a CRB and whether these were in place, and suggesting that supervision arrangements be reviewed in the interim.
	The Corporate Director: Customers emailed CLL's Board Chair on 17 June in response to an email from the Chair on 6 June. The Corporate Director's email quotes the Chair's email, referring to CLL's suggestion that they surrender the leases and hand back facilities to DCC, including a TUPE transfer of CLL staff to DCC. He outlined DCC's position to say that it would look at the situation favourably, pending a full risk assessment and political approval. He suggested four key work streams – legal, HR, financial and operations.
July 2013	A Cabinet Briefing report dated 1 July informed Cabinet that CLL had indicated that it wished to surrender the leases on the Sun Centre, Nova and Bowling Centre. The report requested approval to undertake a due diligence exercise, which would inform a report to Cabinet in September 2013.
	A letter from CLL's Board Chair on 9 July stated that the only feasible way forward was for CLL to be handed back to DCC, as CLL would become financially unviable without DCC's financial support and CLL would agree to surrender the leases.
	A letter in response from the Corporate Director: Customers stated that DCC would carry out a due diligence exercise and planned to report to Cabinet on 23 September 2013.
September 2013	The due diligence exercise was completed by an external consultant.
	The Corporate Director: Customers wrote to CLL's Chair on 11 September with an update of the latest position relating to the due diligence report due to be finalised by 15 October and planned Cabinet report on 29 October. The letter stated that DCC wished to share the information with CLL's Board before publication, asking them to convene a Board meeting in early October.
	An overview of the due diligence report was presented to CET on 30 September. The report recommended that CET note the results to date and support the creation of a fuller report for Cabinet briefing on 7 October, a further CET report on 14 October and final report to Cabinet on 29 October or thereafter. CET's minutes record that DCC officers were attending a CLL Board meeting on 7 October and required a further report before November.
October 2013	The Corporate Director: Customers emailed CLL's Chair on 16 October informing him of DCC's timescales for the production of the Cabinet report so that CLL was clear about what was happening. The email also mentioned an option of DCC's Head of Internal Audit verifying some information from the due diligence exercise.
	The Corporate Director: Customers emailed CLL's Chair on 18 October, attaching the final report on the due diligence exercise to be discussed with CLL at the meeting on 29 October.
	CET received a further update on the outcome of the due diligence exercise on 28 October. The report recommended that Cabinet agree in principle to the request of the CLL Board that control of CLL be transferred to DCC, that the transfer take place subject to the due diligence exercise providing a satisfactory outcome and it also recommended further work by DCC's Internal Audit service.
	Notes of a meeting of the CLL working group on 29 October show that it discussed the transfer of CLL to DCC. CLL was advised of progress and further reporting arrangements and that the Head of Internal Audit would be carrying out further work to resolve outstanding issues from the due diligence exercise. As there was a Cabinet briefing due on 5 November, it was suggested that a further meeting of the Working Group be convened for 6 November.

November 2013	A report was presented to Cabinet briefing on 5 November, which was the same report presented to CET on 28 October.
	DCC's Head of Internal Audit carried out additional work to support the due diligence exercise, issuing a report to senior management on 12 November raising some concerns, particularly relating to HR and governance matters.
	The Corporate Director: Customers wrote to CLL's Chair on 14 November, advising him that the Cabinet report had been withdrawn due to the concerns raised by the Head of Internal Audit, as outlined in the letter. The Cabinet report had been rescheduled for 17 December.
December 2013	DCC's Head of Internal Audit carried out additional work on 12 December on CLL's HR files to clarify issues raised in his previous review.
	A Daily Post article on 13 December stated that CLL facilities could be forced to close and that its staff had been warned of the threat of redundancy. This came from an official statement by CLL, claiming that DCC was no longer willing to fund it sufficiently, placing it at risk of insolvency. DCC was not aware of this press release.
	The Corporate Director: Customers emailed CLL's Chair on 16 December requesting a clear and unequivocal statement from the CLL Board by 17 December as to its current position regarding going into administration.
	CLL's Board responded to the Corporate Director: Customers by email on 18 December to state that CLL's position remained that it may be necessary to cease trading on 31 March 2014 but that it awaited DCC's decision on whether it intended to take over CLL.
	The Corporate Director: Customers emailed all DCC elected members on 20 December to inform them of CLL's response and that, due to the risks stemming from ineffective governance of CLL and HR risks, DCC officers were not in a position to recommend takeover within the Cabinet report due on 14 January 2014.
January 2014	Cabinet considered the report on the future of CLL on 14 January recommending that it was too great a risk to DCC to take over CLL. It also recommended that, due to the results of the due diligence exercise, DCC ceased to fund CLL from 1 April 2014, and that current funding available (approx. £200k) be used to support the implications of the decision and develop an interim offer while DCC decided upon a longer-term coastal offer. The report referred to the Funding Agreement and the basis of funding by DCC. The results of the due diligence exercise showed that the funding was not assisting in maintaining or improving tourism and that leisure services failed to demonstrate best value to DCC. Cabinet agreed to call on CLL's Board to state its future plans in the short and medium terms by 31 January 2014.
	A letter from CLL's Board Chair to the Corporate Director: Customers on 23 January stated that CLL proposed to relinquish and hand back the leases on the three facilities on 1 February 2014 and to hand over all fixed assets and equipment and a sum of £75k.