

**HAMPSHIRE COUNTY COUNCIL****Report**

<b>Committee:</b>	Executive Member for Culture, Recreation and Countryside
<b>Date:</b>	2 July 2015
<b>Title:</b>	New Governance Arrangements for the Sport Hampshire and Isle of Wight Team
<b>Reference:</b>	6766
<b>Report From:</b>	Director of Culture, Communities and Business Services

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## 1. Executive Summary

- 1.1. The purpose of this paper is to recommend proceeding with the implementation of new governance arrangements for the Sport Hampshire and Isle of Wight County Sports Partnership with the provision of grant funding from the County Council. The report sets out the background to the current arrangements and recommends that a move to an independent organisation is the best way forward.
- 1.2. The Executive Member received a report on 16 September 2014<sup>1</sup> proposing new governance arrangements for the Sport Hampshire & Isle of Wight Team. The Executive Member asked that the viability of the options proposed be tested further based on the preferred governance model.
- 1.3. Further bench-marking and research has confirmed that a Charitable Incorporated Organisation is the appropriate model. A business case financial model is presented to demonstrate that Sport Hampshire & Isle of Wight can operate independently if transferred with the funding commitments and terms outlined in this report.

## 2. Background

- 2.1. Sport Hampshire and the Isle of Wight (SHIOW) is one of 45 County Sports Partnerships which operate across England. It is responsible for developing specific programmes which increase participation in sport and physical activity across Hampshire and the Isle of Wight and it does this by working with a wide range of organisations. These include local authorities, schools

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<sup>1</sup> Executive Member Culture, Recreation & Countryside - [Proposed new Governance Arrangements for the Sport Hampshire and Isle of Wight Team](#), 16 September 2014

and local universities, Sport England, Public Health and the National Governing Bodies of Sport.

- 2.2. SHIOW's vision is 'Inspiring more people, to be more active, more often'. It works with sports clubs, local authorities, schools, sport and leisure providers, local NHS organisations and businesses to encourage more people to undertake regular physical activity and enjoy a greater sense of health and wellbeing. SHIOW has a broad ranging remit that includes increasing the number of, and skills of, coaches, increasing the number of volunteers, working with sports clubs to enable them to grow and sustain their offers more effectively, delivering various Sport England funded programmes targeting people ranging from age 4 to 25 and running an annual Schools Games for over 2,200 children across 17 different sports.
- 2.3. SHIOW was set up in 2000 and has always been hosted by Hampshire County Council. It is the fourth largest County Sports Partnership in the country (based on population size) and is highly regarded by Sport England. Whilst day to day management of SHIOW comes from within the County Council, SHIOW also has an Advisory Board which it uses to inform its work. The Assistant Director for Community sits on the Advisory Board.
- 2.4. SHIOW has a turnover of between £1m and £1.2m per annum. Sport England is the largest contributor, providing £382,530 core funding and a further £601,630 in 2015/16 to deliver its specific programmes. The Hampshire County Council cash limit revenue budget is £196,000 for 2015/16 and this is managed separately from the SHIOW Sport England budget. The County Council is the second largest financial contributor to SHIOW.
- 2.5. In addition, as the host authority, the County Council employs and holds the corporate responsibility for SHIOW staff and provides SHIOW with all its corporate services. SHIOW makes an annual contribution of £18,500 towards these costs. This funding source will remain with SHIOW to purchase support services and therefore there is no impact on HCC support services.
- 2.6. There are 15 local authorities in the area covered by SHIOW, 11 of which, including the County Council, pay £5,125 a year to SHIOW to support the general activities of the partnership (See list of contributing authorities in Appendix1).

### **3. Context**

- 3.1. When County Sports Partnerships were set up 14 years ago, nearly all were hosted by a local authority or university. Over the last five years this arrangement has changed significantly and now nearly 50% of the County Sports Partnerships are constituted as independent organisations, including the 3 largest county sports partnerships; London, West Yorkshire and Greater Manchester. The reasons for this include a desire to act with more freedom and independence, the economic pressures being experienced by the host and a desire to capture new income opportunities not available through a hosted relationship, e.g. competing for sports development

contracts with local authorities and other organisations (Sport Hampshire & IOW is not a legal entity and cannot therefore compete in its own right for contracts) and some grants that are not available to local authorities.

- 3.2. Sport England, SHIOW's largest financial contributor, has recently asked all the County Sports Partnerships to reduce their reliance on Sport England funding to 50% of turnover by 2017. This is arguably more difficult for SHIOW to do when it is fully hosted by the County Council as it has no formal legal status and cannot enter independently into legal or commercial contracts. It is also more difficult for SHIOW to be 'fleet of foot'.
- 3.3. Responsibility for sports development lies with district and unitary councils; it is not a specific responsibility for the County Council. For many years the County Council has continued to support sports development across the administrative county of Hampshire. The scale of this work has reduced due to financial pressures, but the County Council still continues to have a desire to support some strategic development of sport and physical activity. This fits in with the County Council's strategic objective to maximise wellbeing. However, concerns relating to return on investment, the difficulty for the Council to maintain the same level of financial commitment in the future, and Sport England's challenge to County Sports Partnerships to diversify future income, together make the continuation of the current hosted arrangement challenging.
- 3.4. The County Council's preferred approach is for SHIOW to be independent. To achieve this it is important to emphasise Hampshire County Council's desire to safeguard the longevity of departing services through a phased and progressive transition. It is also important to mention the County Council's desire to invest in the activity rather than the on-going maintenance of delivery organisations.

#### **4. Governance and other options considered**

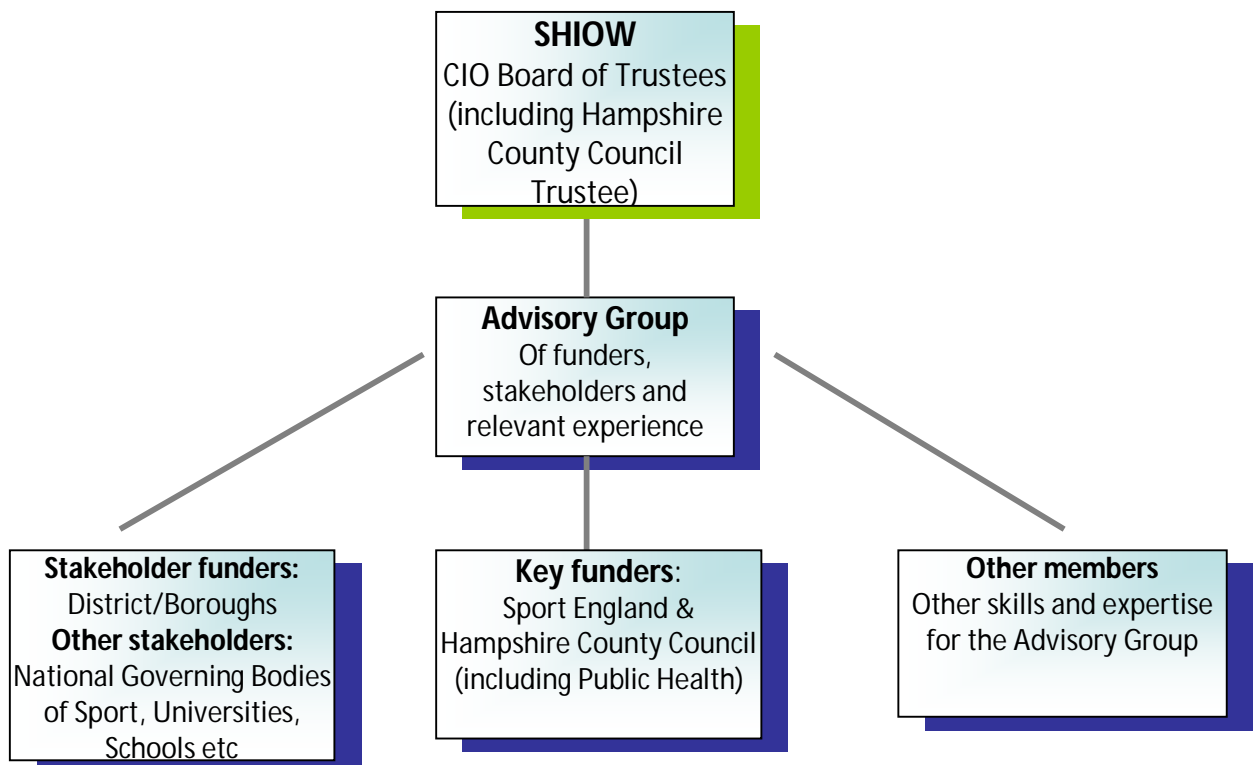
- 4.1. In response to these factors, in November 2013 the County Council and SHIOW commissioned a consultant to make recommendations regarding SHIOW's future governance. The Oaks Consultancy assessed and evaluated four options for potential future governance arrangements identifying two viable options, these were:
  - a) A Company Limited by Guarantee with Charitable Status (CLG)
  - b) Charitable Incorporated Organisation (CIO)
- 4.2. The consultants recommended that a Charitable Incorporated Organisation is the most appropriate vehicle for the future development of SHIOW. This relatively new governance model is less costly than a Company Limited by Guarantee with Charitable status and easier to set up. Further work has now been undertaken to understand the implications of the CIO versus CLG model (see Appendix 2) and to test the viability of the preferred option.
- 4.3. Considering SHIOW's charitable purpose, governance requirements and security of funding through grants, it is felt that the CIO model is the most appropriate model for SHIOW. It is proposed that the transition is managed

as a collaborative process between Hampshire County Council and SHIOW during 2015/16, with the CIO becoming fully operational from 1 April 2016.

### **New Governance**

- 4.4. The CIO will be registered with the Charity Commission under the Foundation model Constitution<sup>2</sup> with provision for up to 8 Trustees. The Trustees will be the only voting members of the organisation. It is proposed that the County Council as a key funder has a nominated Trustee on the Board of Trustees. This is allowed for within the Foundation model Constitution clauses governing the appointment of charity trustees. The initial Board of Trustees will develop a skills assessment and the CIO will expect that the Council will appoint a Trustee to help meet the skills identified as required for the Board.
- 4.5. It is proposed that SHIOW will establish an Advisory Group that shall include representation of its funders and other key stakeholders to replace the current Advisory Board (as illustrated below).

#### Relationship of SHIOW Board with funders and stakeholders:



- 4.6. Following the Executive Member Report in September 2014 a Project Board was set up of key stakeholders, chaired by the Assistant Director,

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<sup>2</sup> [Charity Commission – Model Constitution for a charity whose only voting members are the Trustees \(Foundation model\)](#)

Community. It includes representatives from the current SHIOW Advisory Board and invited others, including the Chief Executive of the County Sports Partnership Network, local authorities and Sport England. It is proposed that two Members of this Project Board become the initial Trustees with a third trustee recruited to progress the initial steps to set up the charity, including opening a bank account, signing off the Constitution and submitting the Charity Commission registration application.

- 4.7. Some of the activity to prepare for transfer of staff and service cannot take place until the CIO becomes a legal entity through Charity Commission approval. As soon as it becomes a legal entity, it will be able to enter into legal contracts.
- 4.8. As part of the proposed grant funding arrangement with the Council, the CIO will provide information to the Council on Hampshire's talented athletes, apply the grant funding to developing and delivering the Council's Talented Athlete Scheme and allocate coaching bursaries. It will also strategically lead the development of sport and physical activity in Hampshire, and develop the Hampshire Institute of Sport, a concept that arose after the London 2012 Olympics to help Hampshire's talented athletes reach their full potential.

## **5. Legal considerations**

- 5.1. The Council has sought expert legal advice in relation to the risks associated with the proposed new governance arrangements and associated matters and a summary of the advice received is set out in the exempt Appendix 6.
- 5.2. Future financial support for the CIO is proposed through a grant (see paragraph 6 below). The proposed terms to be included in agreements with the CIO, are set out in Appendix 3. The proposed terms, where appropriate, apply the principles within the agreements that the Council put in place with the Hampshire Cultural Trust in relation to grant funding and the proposed transfer of staff under TUPE<sup>3</sup> regulations to the new organisation. Agreement of final terms will be subject to discussion with the Board of Trustees of the CIO during the implementation phase.

## **6. Financial considerations**

- 6.1. Hampshire County Council, in proceeding with the transfer of SHIOW to an independent charitable organisation, is proposing to commit to a medium-term funding agreement. It is proposed that the Council agree fixed annual grant funding amounts for a three year period that include reductions providing a guaranteed but tapering commitment of funding from the Council to SHIOW totalling £446,000 over that period. The funding for 2016/17 has been proposed at the same level as 2015/16, despite reductions made

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<sup>3</sup> Transfer of Undertakings (Protection of Employment) Regulations 2006" as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014

through the enhanced voluntary redundancy in 2015. The funding agreement will enable savings for the Council to be achieved as follows;

		SHIOW grant	HCC saving
2016/17:	Year 1	£196,000	0
2017/18:	Year 2	£150,000	£46,000
2018/19:	Year 3	£100,000	£50,000
2019/20:	Year 4	To be confirmed	

- 6.2. Any funding that is to be re-distributed as grants, including the Hampshire Talented Athlete programme and Coaching Bursaries, will be provided to SHIOW annually in addition to the core grant above. The existing reserves held by Culture, Communities and Business Service, ring-fenced for SHIOW, will also be transferred at handover, including £50,000 for the development of the Hampshire Institute of Sport. Sport England core funding has been awarded from 1<sup>st</sup> April 2015 to 31 March 2016, and is committed in principle from 1<sup>st</sup> April 2016 to 31 March 2017 in line with the current Sport England strategy. Sport England anticipates confirming County Sports Partnerships core funding arrangements from 1 April 2017 during the financial year 2016-17.
- 6.3. A proposed five year income and expenditure profile for SHIOW has been modelled. This is provided as Appendix 4. This is based on a number of assumptions which have been tested where possible through benchmarking with other County Sports Partnerships already operating as charitable organisations. Sensitivity analysis has been undertaken on the projected income and expenditure financial plan which shows that if the assumptions are broadly correct that the CIO will have sufficient balances to manage the situation. However if there are changes to some of the assumptions behind the business case (for example if Sport England were to withdraw funding with no notice) then the CIO could face a deficit position. It is proposed that a grant payment schedule will be agreed to support overall financial resilience and start-up cash-flow requirements appropriately. The Board of Trustees is not yet in place but will receive an indicative budget based on the agreed grant from the Council, and together with the Sport England funding, the financial business case indicates that SHIOW can achieve a balanced position.
- 6.4. The business plan is designed to reduce dependency upon public funding from Sport England and local authorities and at the same time explore new income streams from a wide variety of sources. Of course, it is not without challenge or risk but this should be set within the context of the development of a sound business plan, strong track record of delivery and a team that have already started to demonstrate that they can take on new models and principles and apply these to their existing products and services. The team have also demonstrated that they have many of the skills needed to identify new customer groups and business opportunities and take a pragmatic approach to the delivery of new activity in the organisation's new CIO status.

There is also scope within the business plan to close gaps in skills through new appointments.

- 6.5. The Council will not provide any support services such as IT, HR, and payroll. The costs that the CIO will face include rent, business rates and utilities, payroll, insurance, audit and professional advice fees such as legal and HR. However SHIOW will not be making its current financial contribution to the Council for these services. These have been built in to the financial business case. The CIO will also have to fund employer pension contribution costs for any new staff it employs as only the transferred staff will be eligible to remain within LGPS (employer contribution to be covered by the grant payment estimated to be about £49,000 per annum). The CIO will need to establish its own pension scheme for any new employees.
- 6.6. As part of the arrangements the County Council will agree to continue to meet the pensions liabilities associated with the transferring staff. The pass-through arrangement (under which the Council will be the guarantor to the Hampshire Pension Fund) is designed in a way that means that the County Council's liabilities will be no greater than if the staff had remained within its own employment.
- 6.7. It is intended that the remaining reserves held by CCBS are transferred to the CIO and that the CIO will be fully responsible for meeting any other future redundancy liabilities for both the transferred and new staff.
- 6.8. The costs associated with the set-up of the CIO are also to be met from the ring-fenced cost of change funding held from Sport England SHIOW funds. One of the main financial risks facing the CIO will be the impact of inflation on pay and non-pay expenditure. These costs will have to be managed by the CIO and negotiated with all the funders.
- 6.9. Whilst in theory there are scenarios where the CIO could face financial difficulties, the proposed governance model is a charitable incorporated organisation and the CIO will be a separate entity from the local authority. Hampshire County Council will not inherit any debts attributable to the CIO should it fail with monies outstanding except under the guarantee the County Council will provide to the Pension Fund in respect of liabilities of the CIO to the Pension Fund. It is not anticipated that the County Council will be in a position to provide additional funding should the CIO fall into difficulty, although it will work proactively with the CIO in such circumstances to implement mitigating strategies. It should be noted that grant monies paid in advance by the County Council could be at risk in the event of insolvency.
- 6.10 As a core element of ordinary budgeting procedures, the CIO will be able to anticipate cash flow issues or budget pressures and put mitigation strategies in place to ensure a balanced budget, in discussion with the Board and funding partners.
- 6.11 A line for new income has been included in the business plan. A modest amount of £25,000 has been included in year 1 rising by 10% per annum. Business planning is in progress and it is anticipated that new income streams will come from sales of additional courses and events, grants and external funding and sponsorship/advertising.

## **7. Staff and stakeholder considerations**

- 7.1. SHIOW currently has 15 staff (13.6 fte) and a further 5 staff (4.6fte) funded within the HCC cash-limit. Three staff will leave under enhanced voluntary redundancy and other contracts will end before transfer. The staff will transfer under TUPE regulations to the new organisation with protected contractual terms and conditions and it is proposed that the staff will remain within the LGPS under a pass-through closed agreement with the Hampshire Pension Fund.
- 7.2. SHIOW staff have been involved in discussions and consultations throughout in relation to SHIOW becoming a charitable organisation. The specific TUPE 45 day consultation with staff is scheduled to take place over the summer. As a consequence of recent enhanced voluntary redundancy and a skills gap analysis for the CIO a revised staff structure will be needed and staff will be consulted on this as part of the TUPE consultation. All the team have been involved in regular team meeting briefings and in a programme of six business-planning workshops led by external consultants familiar with the setting up of charitable county sports partnerships.
- 7.3. Overall the staff are enthusiastic about moving into an independent organisation and positive about the challenges the CIO will face. The workshops have provided an opportunity to discuss many issues including the skills required in the new organisation, culture change, and sharing ideas for driving income and investment and identifying the opportunities to expand the development of sport and physical activity. A summary of the workshop sessions is included in section 9 of this report.
- 7.4 The local authorities currently providing annual funding to SHIOW totalling £61,500 have been kept informed of the proposals through their representation on the SHIOW Advisory Board, newsletters and face-to-face meetings with the Director about future funding, service development and the proposed governance arrangements. The response is generally positive, although Gosport Borough Council has given notice of withdrawal of its funding this year the reason being budgetary pressures and a review of its partnership arrangements. From the one to one meetings, many other local authorities have offered their support and ideas for future income generating opportunities. Through recent 1:1 meetings with local authorities it is anticipated that most of the grants will be secure in the short term albeit they will only confirm on a year by year basis (appendix 1).
- 7.5 As outlined under governance above, other funders will be represented on a revised Advisory Group. Local authority funders, including the County Council, will continue to receive monitoring reports as now on the provision and development of sports and physical activity within their area through the Sport England programmes and other activities of SHIOW.

## **8. Benefit of the proposed transfer**

- 8.1. The proposed transfer of SHIOW to an independent organisation is part of the Council's need to achieve savings whilst protecting its statutory functions. Until now, the Council has chosen to invest in sports development

but is unlikely to be able to continue to make the same investment in the future. As a result of these proposals a financial cash-limit budget saving of £96,000 will be achieved for the County Council by April 2018. Funding for SHIOW by HCC beyond 2018/19 is subject to review in 2017/18.

- 8.2. In addition and over time, the Council will be able to reduce its financial liabilities as SHIOW staff leave the CIO. LGPS employer contribution costs will be saved as there will be no new staff joining the Council's payroll or LGPS. The Council will also make some small savings in overheads for support services that it currently provides as well as savings in management support.
- 8.3. The liability for meeting redundancy costs will transfer to the CIO and the risk will be mitigated by a ring fenced reserve that will also be transferred.
- 8.4 SHIOW already has a recognised brand and work will be carried out to test its brand identity and where necessary, make improvements. The brand will have the potential to attract new opportunities for external investment and strategic partnerships across Hampshire and the Isle of Wight and possibly regionally and nationally. The brand secured nearly £1.4 million of external revenue investment in 2014-15 and it is anticipated that it can lever in further investment over the next 5 years.
- 8.5 A move to an independent CIO provides an exciting opportunity to create a more diverse funding model for SHIOW and in turn provides the best chance of continuing to deliver quality services for Hampshire and Isle of Wight residents.

## **9. SHIOW Business Plan**

- 9.1. SHIOW currently has robust strategies to direct its own work and the support it provides to its partners. The Council approved SHIOW's four year strategy (2013-2017<sup>4</sup>) in September 2013, establishing a structure and objectives for the development of and to sustain participation in sport and physical activity to the end of Sport England's current funding commitment.
- 9.2. It is important that SHIOW utilises its new found legal status as a CIO to maximise the business growth opportunities available to it, and to ensure that SHIOW can maintain its current level of delivery whilst creating a financially sustainable business independent of Hampshire County Council.
- 9.3. The SHIOW staff are attending six business planning sessions delivered by Oaks Consultancy. The sessions in totality will cover the following areas:
  - Identification of SHIOW's strategic and business rationale
  - Identification of the scale and scope of SHIOW's business challenge

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<sup>4</sup> Executive Member for Culture, Recreation and Countryside adopted the Sport and Physical Activity Strategy for Hampshire & the Isle of Wight 2013-2017 (25 September 2013)

- Identification of the business development opportunities available to SHIOW
  - Identification and exploration of potential organisational and cultural developments required to support the implementation of the SHIOW business plan
- 9.4. Where possible the full SHIOW team has attended each of the business planning sessions. It has been important for the team to fully understand the organisational changes that need to take place. As a consequence the team have spent time discussing governance structure, communication and engagement, brand development, capacity management and skills development.
- 9.5. Throughout the initial four sessions, the SHIOW team has been highly engaged and demonstrated a sound understanding of each topic. The team has quickly been able to take on new models and principles and apply these to their existing products and services. The team has also demonstrated they have many of the skills needed to identify new customer groups and business opportunities, whilst taking a pragmatic approach to the ability of the team to deliver new activity in the organisation's new CIO status.
- 9.6. The two key outcomes for SHIOW are the organisation's financial security, and the ability to generate income which could be used to initiate delivery of enhanced services, over and above their existing, commissioned activity. As a result of this, SHIOW have identified the following priority customers: local authorities, clubs, schools, Town and Parish Councils and coaches.
- 9.7. The team has begun to pull together value chains for three customer groups identified through their business development session; schools, coaches and facility / asset owning clubs and organisations. Alongside the prioritisation of activities and business areas, the SHIOW team will undertake income target setting for each business area, alongside action planning on how the new activity will be embedded across the team's programme of work.
- 9.8. In Oak's view (Oaks have worked significantly with a number of County Sport Partnerships over the past 5 years), SHIOW has a very capable team with the ability to activate a wide range of business opportunities. Oaks therefore believes that the development and consequential implementation of a business plan with the SHIOW team can deliver the income targets needed to achieve the organisation's long term strategic objectives.

## **10. Risks**

- 10.1. Any new venture of this type will carry risks and these have been carefully assessed as part of the financial business case and implementation planning. The risks can be summarised as follows and should be considered compared with a 'do nothing' option. The next five years is a period with an uncertain landscape for both local government and national funding. However, the scenario that would have the greatest impact on the

future of SHIOW, that is a substantial reduction in either Sport England or local government funding, is not materially affected by the setting up of a charitable organisation as this would in any case likely lead to redundancies.

10.2. In addition to this overall risk to SHIOW's grant funding, other risks include:

- a) Cash-flow: As an independent organisation SHIOW's cash-flow will be dependent on timely payment of grant funding by Sport England and HCC to meet its commitments
- b) SHIOW is unable to build capacity and skills to bid for additional grants, funding and/or contracts to grow and develop the CIO
- c) The pressures of meeting its running costs leads to the organisation becoming at risk of insolvency

10.3. By making the decision to proceed the Council aims to give SHIOW the best chance of success to build resilience and to shape its own future. The decision is supported by Sport England, SHIOW's major funder.

10.4. A full Risk Register has been compiled identifying the risks during the set-up phase and the on-going operational, financial and reputational risks for the organisation looking into the future. The Register is considered regularly by the Project Board.

## 11. Decisions and Timeline

11.1. The proposed timeline for transfer is set out below. There is substantial detailed work to be completed over the next few months for a final transfer from 31 March 2016. The next step is to recruit an initial Board of Trustees to take SHIOW through the set-up phase. The Board will have a number of decisions and agreements to sign off before handover of staff and funding to ensure legal agreements, pension arrangements, insurances, policies, and contracts for support arrangements are in place. Above all, the Board will need to ensure that the new CIO has a robust Business Plan, the vision and leadership to establish SHIOW as a successful independent county sports partnership.

11.2. Proposed timeline to transfer:

July 2015	Executive Member Culture, Recreation and Countryside Decision to proceed with transfer of staff and resources to a CIO
August 2015	Board of Trustees recruited and Charity Commission application submitted
Summer 2015	Communication with unions and consultation with staff on details of the transfer

Autumn 2015	Confirmation of Charity Commission registration
September 2015	Executive Member Policy and Resources Decision on the closed LGPS pass-through agreement and the first year grant being paid in full on transfer.
Winter 2015/16	Implementation: procurement of support services, arrangements for move to new premises etc
31 March 2016	Final sign-off and transfer of staff and funding to the new SHIOW charitable organisation

11.3. The detailed implementation activity plan is provided in Appendix 5.

## 12. Equality considerations

12.1. The equality impacts have been considered in relation to the impact of SHIOW becoming an independent organisation for the existing SHIOW staff and for SHIOW's partners, stakeholders and its customers.

### 12.2. Impact for staff

If SHIOW becomes an independent organisation, there are a number of factors that may have an impact on staff. The profile of staff in currently working for SHIOW is;

	Male	Female		Male	Female
Sex	4	13	Full time	3	7
Age (>50)	2	3	Part time	1	6
Age (26-49)	2	10	Disability	1	0
Age (<25)	1	1	Ethnicity	0	1

(SHIOW are in the process of making 3 appointments – these staff are not included in the data above)

12.3. Any staff re-structure will be subject to the employer's terms and conditions, which will be the Council's if a restructure takes place pre transfer to an independent organisation. Informal and formal consultation with staff is and will continue to be carried out in relation to any proposed changes. Women will statistically be affected the most in any re-structure of the team. Staff over 50 years of age may be concerned about their future employability.

12.4. Over the last six months, the Council has been through a phase of enhanced voluntary redundancy and 5 SHIOW staff have left or will leave before any transfer to a CIO takes place, including the Disability Sport Officer [which was a post funded by the Council outside the main SHIOW budget]. SHIOW will support the Sport National Governing Bodies and clubs to develop opportunities for disability sports across all disciplines but will not have the funding to reappoint to a specialist role.

- 12.5. Staff will transfer under the TUPE regulations with protected terms and conditions but other benefits and operational policies of the CIO will be subject to decision of its Board of Trustees. It is likely that the Trustees will adopt similar policies and no significant detrimental impact is expected.
- 12.6. SHIOW will move from its current Hampshire County Council offices. This may affect staff travel commitments both to work and within work and personal arrangements e.g. childcare. It is intended that SHIOW will continue to provide childcare vouchers for those staff currently using the scheme. Allowance for work-related travel is made in the CIO budget. New offices for the CIO will be found close to Winchester and central to the County to minimise both the impact for staff travel time and travel costs.
- 12.7. It is proposed that the transferred staff will remain within the Local Government Pension scheme if the CIO becomes an Admitted body. Should the CIO be unable to meet the employer contributions in the future, then it may be forced to end the LGPS scheme for its staff. In this case, pension benefits are frozen in the Hampshire Pension Fund, and the CIO would need to offer an alternative scheme. This scenario is unlikely in the medium term as the Council will commit to ongoing support with LGPS employer contributions.
- 12.8. The staff will need to develop additional skills and knowledge and be subject to different pressures, expectations and culture when working for a charitable organisation. The workshop sessions with Oaks Consultancy, a comprehensive training needs analysis, further consultation planned with staff and preparation sessions will take place between now and transfer to ensure staff are prepared to operate in an independent organisation.
- 12.9. **Impact for stakeholders and customers**

SHIOW mainly operates organisation to organisation although there are some activities that are supplied directly to the end user, customer and/or Hampshire residents e.g. School Games, Hampshire Talented Athletes, coaches and volunteers and Roadshows. SHIOW's partners and stakeholders can be defined as local authorities across Hampshire and the Isle of Wight (including Public Health), National Governing Bodies of Sport, businesses, national partners such as Sport England and the English Federation of Disability Sport etc.
- 12.10. The new, independent organisation will have similar objects to allow it to deliver the activities that the funding bodies currently support. However, some of the activities delivered by SHIOW are currently funded by HCC and all of these activities may not continue as the Council reduces its funding over the next few years e.g. the scale of the grant programmes managed by SHIOW including Hampshire Talented Athlete and coaching bursaries. However, this outcome would be no different if SHIOW had remained within the Council.

### **13. Conclusion**

- 13.1 There is a level of risk associated with the development of an independent organisation; the transition is complex to establish and will initially

challenge the organisation's skills and capacity. Nevertheless it represents the most positive option for the future governance of SHIOW. The risks are understood and manageable, particularly given the County Council's commitment to support the transitional process to ensure SHIOW is capable of operating independently and sustainably in the long term.

- 13.2 The transition will be managed as a collaborative process between Hampshire County Council and SHIOW.

#### **14. Recommendations**

- 14.1. That the Culture and Communities Select Committee recommend that the Executive Member for Culture, Recreation and Countryside:
- Approves the transfer of services and funding of SHIOW from its current HCC hosting relationship to a Charitable Incorporated Organisation to be fully operational from 1 April 2016.
  - SHIOW continues to deliver certain elements of Hampshire County Council's sports development programme.
  - Authorises the Director of Culture, Communities and Business Services to undertake any other steps that are reasonably required to finalise and implement the above recommendations including agreeing the final terms of the documentation required.
  - Recommends to the Executive Member for Policy and Resources a closed LGPS pass-through agreement and approval of the final detailed terms of the transfer.

#### **Appendices**

Appendix 1	List of local authorities contributing funding to SHIOW – 2015/16
Appendix 2	Comparison of CLG versus CIO
Appendix 3	Heads of terms – grant agreement
Appendix 4	Business case financial model and assumptions
Appendix 5	Implementation Plan 2015-16
Appendix 6 (Exempt)	Summary of specialist legal advice

**CORPORATE OR LEGAL INFORMATION:****Links to the Corporate Strategy**

<b>Hampshire safer and more secure for all:</b>	no
Corporate Improvement plan link number (if appropriate):	
<b>Maximising well-being:</b>	yes
Corporate Improvement plan link number (if appropriate):	
<b>Enhancing our quality of place:</b>	no
Corporate Improvement plan link number (if appropriate):	

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

<u>Document</u>	<u>Location</u>
Proposed New Governance Arrangements for the Sport Hampshire and Isle of Wight Team – September 2013	6073

## **IMPACT ASSESSMENTS:**

### **1. Equality Duty**

- 1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;

Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;

Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

#### **Due regard in this context involves having due regard in particular to:**

The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;

Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;

Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

#### **Equalities Impact Assessment:**

A full Equalities Impact Assessment has been undertaken as part of the Business Case.

### **2. Impact on Crime and Disorder:**

- 2.1. This will be considered as part of the Business Case.

### **3. Climate Change:**

How does what is being proposed impact on our carbon footprint / energy consumption?

Not applicable.

How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

Not applicable.

List of local authorities in the SHIOW area and providing annual funding

	<b>Local authority</b>	<b>2015/16 funding</b>	<b>Notes</b>
1.	Hampshire County Council	£5,125	Included in HCC's cash-limit
2.	Isle of Wight Council	£5,125	Meeting planned.
3.	Basingstoke & Deane	£5,125	Good value. Intend to continue funding
4.	East Hants	£5,125	Good value. Intend to continue funding
5.	Eastleigh	£5,125	Good value. Intend to continue funding
6.	Fareham	Nil	Has not funded since 2012
7.	Gosport	Nil	Notice given May 2015
8.	Hart	£5,125	At risk from 2016/17 due to changes in the leisure contract
9.	Havant	£5,125	Good value. Intend to continue funding
10.	New Forest District Council	£5,125	Good value. Intend to continue funding
11.	Portsmouth City Council	Nil	Has not funded since 2012
12.	Rushmoor	£5,125	Good value. Intend to continue funding
13.	Southampton City Council	£5,125	Meeting planned.
14.	Test Valley	£5,125	Good value. Intend to continue funding
15.	Winchester City Council	£5,125	Good value. Intend to continue funding
	<b>Total</b>	<b>61,500</b>	

Nine District and Borough Councils, Hampshire County Council, Southampton City Council and the Isle of Wight Council have committed to fund in 2015/16. Each contribution is £5,125 for the year. Portsmouth and Fareham have not paid into the partnership for several years. Gosport has given notice that they will not fund from 2015/16.

In line with the Sport England funding period the commitment to pay is reviewed annually.

Comparison of a Charitable Incorporated Organisation (CIO) versus a Company Limited by Guarantee with Charitable Status (CLG)

Charitable Incorporated Organisation	Charitable Company Limited by Guarantee
The Board/Trustees have limited liability only and are protected from personal risk	Protects trustees from personal risk. Company with limited liability
Separate legal personality	Separate legal personality
Limited liability	Limited liability
CIO is not a company (not subject to Companies House registration and regulation)	Must be registered at Companies House and with the Charities Commission
Regulated by the Charities Commission and subject to charity law only	Regulated by Company law and charity law resulting in additional administrative/financial management costs
CIO in its own name can enter into contractual agreements, employ its own staff, own property	CLG in its own name can enter into contractual agreements, employ its own staff, own property
Formed through adopting a model Constitution e.g. Foundation model	Constituted under Memorandum and Articles of Association to create a company – greater flexibility
Less onerous reporting and accounting requirements but retains benefits of being incorporated	Increase to costs i.e. accounts preparation
Viewed as the ideal vehicle for not for profit making activity	

A summary of the provisional proposed legal terms for funding and transfer agreements between Hampshire County Council and the Hampshire & Isle of Wight County Sports Partnership as an independent Charitable Incorporated Organisation

**Draft proposed Heads of Terms (subject to further consideration to finalise)**

<b>Issue</b>	<b>Summary of proposed terms</b>
Term	A period to be determined that will include 3 year funding plus period of pension contributions
Termination	At the end of the agreement or by the Council or the CIO giving 12 months notice or in the event of default.
Termination or review	A variety of situations to enable termination or review of the agreement (to include ability to terminate earlier if Sport England ceases funding). Provisions for any breach once identified to be addressed with an agreed action plan to prevent termination being invoked.
Grant funding and review arrangements	Three years fixed funding for 2016/17, 2017/18 and 2018/19. Funding for year 4 to be reviewed in year 2 and for year 5 in year 3. Thereafter on an annual basis. The funding to be applied towards specified activities (e.g. any monies to be re-distributed as grants or bursaries under specified programmes)
Timing of payments	Grant to be paid in accordance with a schedule (to be agreed) to support cash-flow requirements
Monitoring performance	The CIO will report to the Council on performance against the Business Plan in relation to the HCC funding and specific programmes on an annual basis.
Redundancies	Transfer of reserves and liability to the CIO – details to be agreed
Funding the LGPS Pensions for TUPE staff	The Council will provide 100% funding to cover the LGPS pension contributions at the point of handover within the grant funding to the CIO. The Council to continue to pay pension contribution for transferred staff whilst it provides grant funding to SHIOW and for 5 years beyond the end of a grant funding period.
Insurance	The CIO will be responsible for suitable employer's liability insurance. This is a legal requirement. The CIO will also maintain public liability insurance.
TUPE	A list of the transferring staff and their contractual terms and conditions will be provided with provision for the transfer of staff in accordance with TUPE regulations.
Provision of equivalent pension	The CIO must comply with Best Value Direction and provide LGPS or an equivalent pension scheme to transferring staff. New CIO staff will not be eligible to join LGPS.
CIO Pension scheme	The CIO will set up a separate pension scheme for new staff. It is likely the pension scheme will have a defined employer contribution. Under auto-enrolment regulations,

	the CIO is required to enrol eligible staff in a pension scheme.
CIO as Admitted body to LGPS	The CIO will be a combined entity with the Council through the operation of the pass-through arrangement in relation to pension costs. It will be a closed scheme and new employees of the CIO will not be entitled to join the LGPS. The Council's funding includes employer's contributions. The Council will act as a guarantor to LGPS for any deficit in the fund associated with the transferring employees, subject to certain exclusions (e.g. costs due to exercise of discretion by the CIO).
Transfer of assets	The Council will transfer the assets listed in an inventory to the CIO at nil cost on handover.
Intellectual Property (IPR)	The CIO will own its own brand (SHIOW and any new brand created) and any IP created for SHIOW whilst HCC has been its host. The Hampshire Talented Athlete Scheme to be licensed to SHIOW.
Novation of grant	Sport England funding will be novated to the CIO from Hampshire County Council.

**Note:** All of the above terms are provisional and will be subject to further discussion and agreement with the Board of Trustees of the CIO.

### SHIOW – Five Year Budget Financial Plan 2016-17 to 2020-21

A proposed five year income and expenditure profile for SHIOW has been modelled. As part of the sensitivity analysis a cautious approach has been taken to modelling including income targets and VAT assumptions.

	2015-16 Current Year	2016-17 Year 1	2017-18 Year 2	2018-19 Year 3	2019-20 Year 4	2020-21 Year 5
	£000	£000	£000	£000	£000	£000
<b>SHIOW becomes CIO</b>						
<b>Expenditure:</b>						
Staff (salary, NI, pension)	612	578	500	504	454	446
Premises	18	25	25	26	26	26
Transport	21	20	20	20	21	21
Supplies & services	27	93	93	94	94	95
<b>Total running expenses</b>	<b>678</b>	<b>716</b>	<b>638</b>	<b>644</b>	<b>595</b>	<b>588</b>
Sport England Projects:						
Sportivate	247	207	220	220	220	220
Satellite clubs	123	120	0	0	0	0
HCC - HTAS	92	46	46	46	0	0
Other	82	61	40	42	33	36
<b>Total project expenses</b>	<b>544</b>	<b>434</b>	<b>306</b>	<b>308</b>	<b>253</b>	<b>256</b>
<b>Total costs</b>	<b>1,222</b>	<b>1,150</b>	<b>944</b>	<b>952</b>	<b>848</b>	<b>844</b>
<b>Income:</b>						
Sport England	-1019	-934	-710	-710	-710	-710
HCC (cash-limit)	-196	-196	-150	-100	-31	-28
HCC (HTAS)	-112	-33	-33	-33	0	0
Partner funding	-56	-56	-56	-56	-56	-56
Other (including earned income)	-36	-52	-45	-45	-48	-51
Transfer to reserves HCC grant smoothing		48	48			
Transfer from reserves HCC grant smoothing			-48	-48		
<b>Total income</b>	<b>-1,419</b>	<b>-1,223</b>	<b>-994</b>	<b>-992</b>	<b>-845</b>	<b>-845</b>
<b>(Surplus) /Deficit</b>	<b>-197</b>	<b>-73</b>	<b>-50</b>	<b>-40</b>	<b>3</b>	<b>-1</b>
<b>Reserves</b>						
<b>Balance 1 April</b>	<b>-356</b>	<b>-373</b>	<b>-446</b>	<b>-496</b>	<b>-536</b>	<b>-533</b>
Olympic legacy	50					
Set-up costs	130					
(Surplus) /Deficit	-197	-73	-50	-40	3	-1
<b>Balance 31 March</b>	<b>-373</b>	<b>-446</b>	<b>-496</b>	<b>-536</b>	<b>-533</b>	<b>-534</b>

The five year budget plan is based on the following assumptions:

- A transfer date of 1 April 2016 with all the additional service and supplies costs beginning from that date e.g. rent, insurance etc. A contingency for non-pay inflation calculated as 1.5 % of general supplies and services
- Staff salaries include a 1% inflation pay award (including employer on-costs) per annum plus annual salary increments for the transferred staff in line with current terms and conditions as an HCC employee (performance related). Employer pension contributions for all employees is based on the 13.1% currently paid for LGPS (this may be lower for new staff)
- 50% cash reduction in the annual grant from Hampshire County Council spread over the first 3 years (24% in Year 2 and a further 33% in Year 3 totalling -£96k). No HCC funding yet agreed beyond 2018-19
- Staff costs are reduced to reflect changes to income e.g. the known reductions in HCC or Sport England funding (on-going work on staff structure to inform costs)
- Sport England funding for 2016-17 is based on the award letter indicating the in-principle funding amount expected to be confirmed later in 2015-16. The confirmed Sport England funding for 2015/2016 is £984,160. The unconfirmed 'in-principle' figure for 2016/2017 is £933,858. Sport England anticipates confirming CSP core funding arrangements from 1 April 2017 during the financial year 2016-17. (The reduction in 2016- 2017 is due to the end of the School Games funding and no Sportivate Incentive funding)
- Hampshire Talented Athlete Scheme funding will return to the original level at around £46k pa from 2016-17 when the additional Olympic legacy funding ends
- Irrecoverable VAT costs are estimated at £45k on current spend (a revised estimate is being obtained)
- An estimated income target of £25k in Year 1 increasing by 10% per annum
- Set-up costs associated with the transfer are paid from the CCBS 'cost of change' ring-fenced reserves. This will have an impact on the level of reserves to be transferred to SHIOW at start-up.
- Local authority partnership members continue to pay the annual fee of £5,125. Eleven of the 15 Councils currently contribute £61,500.

### **Reserves**

In line with general business discipline, the County Council, with SHIOW, has adopted a responsible and pragmatic approach to the generation of organisational reserves. Through year-on-year business efficiencies the SHIOW team has built up annual surpluses totalling £350,000. This is ring-fenced in the Culture, Communities and Business Services Cost of Change budget, with £50,000 set aside for developing the Hampshire Institute of Sport. The reserves will be transferred to SHIOW to use as a contingency for any future redundancy within the organisation, a safety net for short-term organisational continuity and a level of flexibility to tackle new and diverse strategic and business objectives.