



loss of £17,481. That exceptional item was an "ex gratia settlement agreed to be paid to a former employee and related professional expenses." That employee was Robert Hulbert.

The accounts revealed also a net cash inflow of £428,000 and a net cash outflow of £685,000, leaving a £235,000 deficit that had to be financed by issuing £102,000 in shares and a new £100,000 bank loan. Mr. Hulbert's departure and the earlier departure of Douglas Stewart, the three directors in 1994 were David Bryant, Thomas Christopher Kiernan and Charles Michael Bartholomew, who was appointed on 24 June 1992.

In 1994, a fourth director listed was Moneytime Ltd.—an investment company with 15 shareholders that owned 41,000 shares in Contemporary Leisure in 1994.

The company, using its network of contacts, worked hard to win local government leisure contracts. By 1993, it had won contracts to manage leisure facilities for Three Rivers district council, the London borough of Redbridge and for Croydon, Bournemouth and Kingston upon Thames. It also won contracts for ground maintenance with Bromley and Elmbridge, and a catering contract in Bath. It expanded into managing the Harlow theatre and the Tropicana swimming baths in Weston super Mare owned by Woodspring council. It even set its eyes on growth in Canada, where it won a contract.

The company had big plans to diversify into activities in which it claimed "expertise"—ground maintenance, theatre management, leisure developments and management of leisure facilities overseas. In the company's 1993 annual report, its chairman, David Bryant, stated: "Within three years the company has made remarkable progress. It has gone from four employees to over 1,000, moved from a loss of £20,000 to an operating profit in leisure management in the UK of £122,000, achieved an annualised turnover of over £15 million, is a significant investor in leisure facilities, has great financial stability and is probably the largest unlisted leisure management company in Great Britain. The company is now medium sized and international. The achievement was marked by Contemporary Leisure becoming a plc." Within a few months, the company was in serious trouble.

Cash flow problems mounted. There were discussions with a number of councils to reschedule payments over the winter of 1993–94. Mr. Hulbert's association with the company was ended. Complaints started about high chlorine levels and algae in Redbridge swimming baths, smelly changing rooms, the pools being too cold, run-down supplies and lack of cleaning materials. Staff in Croydon had to use a cash-and-carry to buy in bulk because they could not obtain items from the company. Redbridge council had to step in twice to force the company to bring the pool up to scratch following complaints from local swimming clubs.

The company's association with the London borough of Redbridge—my local authority—began in 1991. The then ruling Conservative group agreed to put the management of the council's three swimming pools out to competition for a six-year contract. Contractors were invited to tender on 18 March 1991. Four companies, including the council's direct services organisation, registered an interest.

Under the relevant legislation, Redbridge was required to allow all tenders, even if they were considered unsuitable. In the event, only two bids were received. City Centre Leisure and Saxon Moore Leisure did not submit tenders. An internal tender evaluation was carried out by council officers. The lower tender, of £654,000, was received from Contemporary Leisure. The other tender was from the council's own direct services organisation—involving no redundancies—and was £142,000 more expensive, coming in at £796,000.

Contemporary Leisure was, according to the evaluation exercise, a newly established company with only two weeks' experience of running leisure facilities. When it was inspected by council officers, it had no track record. The official report entered a great many caveats and warnings, yet the Conservative group on Redbridge council voted to give the tender to Contemporary Leisure. The minutes record the Labour group's opposition to the decision.



The council hoped to save a great deal of money, but it recognised in its documents that the exercise would cost it £101,000 in redundancy payments in the first year. In the long term, however, it thought that there would be savings. Because of the subsequent problems, those savings have turned to dust.

The following year, Contemporary Leisure won the contract in Redbridge for the management of the golf course, again pipping the direct services organisation, whose bid came in second of the many that were received. Redundancy notices were issued to local employees, as was a six-year contract.

In Redbridge, things seemed fine for a few months, but by January 1994 the company was getting behind with its payments. Redbridge was owed a considerable amount of money, and the company was calling for a rescheduling of payments through the winter to try to deal with its cash flow problems.

It was agreed at the initiative of the then chair of the recreation committee, Councillor Hyams, that that could be done; but by September 1994 it had become clear to many people in Redbridge council that the losses being made on the golf contract were undermining the company and that there were still problems with the swimming pools. Urgent discussions were held, and by November it was clear to Redbridge council—it had already become clear to a number of other councils, including Croydon, which had already made representations as early as August 1994 to the Department of the Environment—that things with Contemporary Leisure were going very badly wrong.

When Redbridge contacted the Department of the Environment for advice on what to do, the council hoped that the Department would move quickly. Regrettably, at that stage it did not, although DOE officials have been helpful in this matter to a number of councils in recent weeks. I wish, however, to register my concern that there was no early action before the company collapsed and was put in the hands of the administrator.

These councils were concerned about protecting their staff, their services and their facilities—swimming baths, golf courses, and so on—but under the 1988 Act it appeared that they would have to shut down those operations and cut their services. That is why they urged the Department to take action before Contemporary Leisure went under. That did not happen. On 5 December, the High Court placed an order on the company, and an administrator was appointed. The company's employees in Redbridge and elsewhere were written to and told that they were being made redundant.

This traumatic event caused enormous anguish for people in the run-up to Christmas. Then, my local authority and others had to try to see what could be done to resolve this problem. My council found the situation worse than it had feared. Redbridge council expects to have to pay up to £200,000 this financial year to sort out the mess. It had to pay unpaid wages to many of the workers of Contemporary Leisure. It faced possible liability for bills to utilities which had not been paid by Contemporary Leisure. It has discovered that stocks of cleaning materials, toilet rolls and other items had been run down by the company throughout the period that it had been in control.

Redbridge, like other authorities, had a bond, but it is not clear whether the bond will be sufficient to meet the costs that the authority faces. At a time when it faces cuts in its standard spending assessment and a potential £8 million to £10 million deficit over the next year necessitating cuts in services and an increased council tax, the authority is being hit by a company set up by the former director of leisure of Westminster council, which, ironically, is benefiting from its SSA, while Redbridge is being punished.

Councils thought about withdrawing from contracts. However, if they had withdrawn early, they would have lost their bonds. Many councils got together as early as the autumn of 1993. A Contemporary Leisure users' group was set up to co-ordinate the position of councils that had problems with the company.

Contemporary Leisure thought that it could escape from the problem. It started to approach local authorities to propose an alternative. Mr. Bryant had been the director of leisure at Westminster council in the mid-1980s. The assistant director at that time was Roger Bottomley. Both men were intimately involved in the affairs of Westminster



council in the 1980s. Bottomley, like Bryant and some others in local government, had seen the opportunities open to councils through compulsory competitive tendering. With a number of Westminster colleagues and others, they set up a company called City Centre Leisure to launch an in-house bid for Westminster's leisure contracts. They were successful in getting one of them and the other was won by a small company called Civic Leisure.

City Centre Leisure subsequently lost its Westminster contract, which meant that it was looking for new work. To meet the problems of the ex-Westminster director of leisure, David Bryant, and his company Contemporary Leisure, and given the potential of City Centre Leisure, being run by his deputy, Mr. Roger Bottomley, Mr. Bryant proposed that City Centre Leisure should take over the contracts of a number of local authorities that had been previously won by Contemporary Leisure.

As Leisure Week revealed in its issue of 18 November to 1 December 1994, City Centre Leisure eventually decided to pull the plug on the arrangement. It was not able to deal with the possible start-up costs that would be incurred; in any event, many local authorities were extremely unhappy at the proposal.

Difficulties are being faced throughout the country. Thirteen local authorities and thousands of employees have faced difficulties, insecurity and financial loss. There are some people who face the prospect of losing a great deal of money. That is all because of legislation that enables CCT to apply to leisure services. Is it a one-off problem or is the Minister going to tell us that the difficulties are due to over-stretch and bad management within a particular company?

We need some assurances from the Government. Will the Minister recognise the need to change their position on companies that default on their contracts? Will he assist councils that are left to pick up the pieces? There is no provision for default by notice, but companies can default by termination of a contract, leaving terrible problems.

When are the Government going to table the exemption orders for Redbridge, Croydon and the other authorities which they need legally to do what they have had to do to pick up the pieces? Under the present legislation, the authorities have to re-tender the contracts, presumably next year. Will the Minister allow Redbridge the time needed for the negotiations between the political groups about the re-tendering process in an authority with no overall control? What plans does he have to prevent this happening in other forms of CCT?

Above all, will the Minister refer the issue of CCT in local government to the Nolan committee? There are serious questions to be asked about the role of people working for private companies while still serving, or immediately after having served, as local government officers. Does he agree that there should be no provision to allow shareholding or the acceptance of directorships or consultancies by senior local government officers in or with any company in a related sphere subjected to CCT? What is good for the ministerial goose is good for the local government gander. Many of us are concerned about the way in which CCT has developed. There is a whiff of corruption and some form of local government mafia. I should be grateful for some ministerial reassurance.

3 pm

The Parliamentary Under-Secretary of State for the Environment (Mr. Robert B. Jones) The hon. Member for Ilford, South (Mr. Gapes) has raised a number of issues and put me under some pressure of time to reply, but I shall do my best. He has anticipated at least part of what I was going to say, in that the collapse of Contemporary Leisure or any private contractor does not discredit compulsory competitive tendering any more than it would discredit the competition process generally.

It is a fact of commercial life that companies come and go. In this instance, the failure of Contemporary Leisure seems to have occurred because of the particular management of the company. It had entered into unfavourable contracts and over-stretched its resources. I noted what the hon. Gentleman said about the company's circumstances and, if he has reason to believe that there has been any improper behaviour or fraud, he should refer the evidence to the police.



As for the general temptations of local government officers, there are already adequate safeguards against corrupt dealings between them and private contractors. It is illegal for officers not to declare a pecuniary interest in contracts, and the safeguards would be necessary whether or not tendering was compulsory.

Of course, other companies, those which are competent and competitive, remain active in local government CCT. Most CCT contractors, whether private sector or in-house, operate without serious problems, providing quality services and value for money.

It is extremely important to keep the collapse of Contemporary Leisure in perspective. First, only a handful of local authority contractors have folded or withdrawn since CCT began. Secondly, council in-house teams are themselves not immune from commercial pressures and the consequences of mismanagement; nor should they be. They operate under financial constraints and have to meet a statutory financial objective.

They sometimes fail to do so, and I am sure that the hon. Gentleman will be aware that, if an authority does not deal promptly with the financial problems of a direct organisation, my right hon. Friend the Secretary of State can use, and has used, his powers to intervene. Intervention can take the form of a direction requiring work to be re-tendered or even for the authority to cease carrying out the activity.

There are certainly lessons to be drawn from Contemporary Leisure's demise about how authorities should go about putting work out to tender. They should not be going blindly into arrangements with contractors but should, as a matter of course, be protecting themselves against possible failures by assessing the financial health of tenderers. They should also investigate the resourcing of contractors' bids, and contractors in turn should be open to reasonable requests to justify the details of their proposals.

It is a misconception that CCT requires authorities to accept the lowest bid, regardless of whether it would deliver the service described in the specification. It is true to say that authorities need specific and well-founded reasons if they are going to reject the lowest bid. Quality is an important consideration, especially in the management of sports and leisure facilities, and I accept that authorities will want to have regard to that factor in assessing bids. Any authority may wish to reject a bid that fails to meet the specification or is from a company in an unsustainable financial position.

If, despite those precautions, a service provider collapses, it can, of course, lead to difficulties, especially when the service is high profile, provided directly to the public. Some authorities affected by Contemporary Leisure's collapse have been able to assign the work to other private contractors. Others have had to bring the work in-house while the contracts are being re-tendered.

My Department has co-operated with those authorities to legitimise their position by arranging an order exempting them from the CCT regime. I am grateful to the hon. Gentleman for what he said about the co-operation of officials. We are proposing to exempt nine authorities affected by the collapse, until the end of March next year, which is ample time for re-tendering.

My officials were in touch with the affected authorities when Contemporary Leisure's difficulties were first apparent. They made clear to them that if the company withdrew from contracts any application for a temporary exemption from CCT, pending re-tendering, would be treated sympathetically. Within a matter of days of the Department's being told that contracts with Contemporary Leisure had been terminated, we wrote to the authorities telling them that Ministers were minded to make an order in their favour—the so-called letter of comfort. Procedures are now in motion for making the formal exemption order.

Under present legislation, an authority would be acting ultra vires if it undertook work without first having exposed it to competition, even if it takes the work on temporarily while re-running the tender exercise. A specific exemption



order is needed from the Secretary of State to legitimise a council's position. Further legislation would be needed if authorities were to bring services back in-house temporarily without the Secretary of State's sanction in circumstances such as the financial collapse of a contractor or his total failure to perform to specification. I would certainly be prepared to consider such a change, but I would need to be satisfied that any new provision would not be misused so that, for example, an authority overlooked satisfactory arrangements with an alternative private sector provider in their haste to bring the work back in-house.

Councils in any case should routinely make plans for dealing with contingencies. Also, if appropriate, they should ensure that they are safeguarded against any possible financial loss by arranging for the contractor to enter into a performance bond. Authorities adopt those safeguards as a matter of course.

The authorities who have brought Contemporary Leisure's work back in-house can do so only for a short time because the CCT legislation requires them to put the work out to tender again. The authorities should seize the opportunity for advantages in that process. There are some 15 or so private sector companies known to be in the field who may be keen to bid—indeed, there may be more. My Department has commissioned an analysis of potential markets in certain service areas and its main conclusion is that firms bidding for local authority contracts are only a small proportion of firms that are capable of bidding. Authorities can only gain from taking steps to maximise competition.

The authorities have an opportunity to review and update specifications and to encourage imaginative approaches. They should not let their experience with Contemporary Leisure deter them from looking closely at what the private sector can offer. It is open to authorities to make arrangements direct with private contractors and there are examples of authorities doing so. On the other hand, there is nothing in the present legislation preventing authorities from inviting bids from the private sector which involve some investment in facilities as well as the provision of a management service. If private contractors want a longer contract period in which to recoup their investment than is available under the contract in the legislation, a variation can be offered to them once a contract has been made.

In the latter half of last year, my Department issued several consultation papers dealing with various aspects of the guidance on competition procedure, including the length of contract periods and the use of performance bonds. I am aware that some sports and leisure contractors are particularly keen to have extended contract periods for their activity.

I am pleased to say that we received a very good level of response to our consultation exercise and my Department will be making amended regulations and revising the guidance currently included in circular 10/93.

Where necessary, proposals will be subject to further consultation. The intention will be to consolidate the guidance available on CCT services by autumn 1995 and, wherever it makes sense, to bring into line the guidance on blue and white collar services.

I hope that the matter has been set in context for the hon. Gentleman and I hope that he will contribute his thoughts to the consultation process being undertaken. Meanwhile, I hope that my comments will be helpful to him and his council.

Question put and agreed to.

Adjourned accordingly at nine minutes past Three o'clock.