



Belfast City Council

Report to:	Strategic Policy and Resources Committee
Subject:	Leisure Transformation Programme Members' workshop – examining the future business model options
Date:	Thursday 5 December @ 17.45 Friday 6 December @ 11.30

2.0	Purpose of the workshop
2.1	<p>The purpose of the workshop is to enable members of the SP&R Committee to assess potential future business models for delivering leisure services. On 13 December, SP&R Committee will be asked to agree in principle its preferred option.</p> <p>The objectives of the workshop are:</p> <ul style="list-style-type: none"> • To examine and assess future business model options for delivering leisure services in Belfast; • To give consideration to identifying a preferred business model to inform the decision of Strategic Policy and Resources Committee on 13 December. Any decision taken by Committee will be subject to further detailed consultation with staff and trade unions; • To understand the legal, financial and HR implications of the preferred option and the key considerations for implementation.
2.2	<p>Format of workshop</p> <ul style="list-style-type: none"> • Welcome and overview • Presentation on business model options – Deloitte • Questions and discussion – Members <p>It is planned that the workshop will take 2 hours approximately.</p>

2.0	Relevant background information
2.1	<p>Under the Investment Programme Implementation Plan, agreed by Strategic Policy and Resources Committee in June 2012, SP&R agreed the urgent need for fundamental change in its leisure services, with a focus on delivering better health outcomes and improved value for money. In a report presented to Committee in March 2013, four potential</p>

	<p>business delivery models were outlined:</p> <ul style="list-style-type: none"> • Status quo • Transformed in-house direct service operator • Non-profit distributing organisation (NPDO) • Private sector partnership. <p>The in-house 'status quo' option was ruled out as a result of the agreement to seek £2m efficiency savings from the leisure service budgets, to be delivered by 1 April 2016 in order to invest in Leisure centre building projects. This was agreed by SP&R in June, when Committee set a £105m capital financing strategy.</p>
2.2	<p>In August, Committee agreed to consider the outline business case for the business operating model by the end of 2013. Deloitte was appointed, as an independent expert facilitator, to deliver an options report in order that Committee can assess each option and identify its preferred business operating model in principle.</p> <p>The options report will provide information on the costs, benefits and deliverability of the three potential delivery models. A summary of the options report will be presented at the workshop, in advance of presentation to Committee.</p>

3.0	Business model options
3.1	<p>Transformed In-House</p> <p>This option would involve continuing with direct management of the services and facilities and direct employment of the staff by the Council. It would necessarily involve commissioning an external consultancy for a period of time to sit alongside Council staff, offering hands-on operational modelling to develop, train and set-up systems and practices to help transform leisure facilities, in terms of income, quality and usage.</p> <p>To effect the savings that the Council needs to achieve, in the 2 year timeframe set out by Committee, it would in addition require the Council to:</p> <ol style="list-style-type: none"> 1. Implement a programme of radical culture change i.e. customer and community focussed, delivering increase participation for better health; 2. Adopt a significantly more commercial approach to the management of the services and business planning; 3. Agree changes to current working practices and conditions of employment to align them with the needs of the leisure industry; 4. Implement systems and processes to support and underpin culture change programmes, in particular performance management and accountability frameworks; 5. Build the capacity and empower managers to “manage” the services to an agreed bottom-line business plan, i.e. giving managers flexibility to respond more quickly to customer needs, requiring less reliance on Council committee processes for decision

making except for performance management reporting.

3.2 NPDO / Social Enterprise / Trust

Non-Profit-Distributing Organisations (NPDO) can be established in a number of legal forms. Most of the 100+ leisure NPDOs set up by UK local authorities in the last 20+ years have been established as companies limited by guarantee with charitable status as this is the best understood, the simplest to use and the most tax-efficient. The 2 primary NPDO characteristics are suggested as:

- Its mission is to pursue a wider public good i.e. working with others to improve the health of the population, especially those most in need
- Non-profit distributing with surpluses reinvested for public good/into the service and asset base

This option would therefore involve:

1. Elected members would set the terms of the contract specification (e.g. outcomes), make the initial appointments board members, agree targets, set social clauses, monitor and scrutinise implementation and set a performance reporting timetable.
2. Leasing the leisure facilities to the NPDO using non-business leases subject to peppercorn rents – N.B. ownership of the buildings would remain with the Council and should the NPDO fail, the lease and contractual arrangements would be structured to ensure the buildings revert to the Council.
3. Retention within the Council responsibilities (as a minimum) for structural repairs and maintenance / replacement of major plant and equipment, e.g. pool filters, boilers, etc.
4. Establishing a new organisation with charitable objectives focused on the providing sports and leisure services and encouraging participation by local people from all sectors of the community, particularly the disadvantaged.
5. Appointing a board of “voluntary” directors for the NPDO to oversee the management of the services and to enhance the range of management skills – typically, such boards including elected members within the constraints of HMRC requirements for a NPDO and charity law (if the NPDO is to be a charity) representatives of the staff and the remainder drawn from local people with key business skills, e.g. leisure industry, marketing, legal, finance, property, etc.
6. Transferring the existing management and staff to the new NPDO under TUPE provisions, with continued membership of the local government pension scheme.
7. Transferring responsibility for all aspects of day-to-day management and operational delivery of the leisure services to the new NPDO, as advised by the Council’s legal advisers, as well as broader social outcomes-focussed delivery including tackling obesity and employability initiatives.
8. Drawing up a services contract which sets a framework of minimum service requirements and standards to be provided by the NPDO in exchange for an agreed

annual service payment from the Council to the NPDO

9. As part of the service contract, establishing performance and accountability measures, e.g. levels of participation to be achieved by particular target groups, levels of cleanliness and minimum environmental, safety and other standards to be maintained and maximum charges to be applied together with reporting arrangements to enable the Council to monitor the NPDO's performance against the specified service standards linked to penalty clauses to be invoked in the event of performance failures.
10. Changes to the VAT treatment applicable to activity charges which would increase the net income derived from the existing charges and level of use but increasing the costs of VAT input tax incurred on vatable operational costs – in practice the lease and contractual arrangements are structured to maximise the output tax benefits and minimise the input tax disadvantages.
11. Reinvestment of financial operating surpluses into delivering the social objectives of the NPDO.

Under this option, responsibility for any negotiation with staff with regard to working practices would pass to the NPDO. Existing staff would be protected by TUPE from enforced changes, but clearly, the NPDO could choose to appoint additional / new staff with the necessary skills on industry-appropriate working practices and employment terms.

3.3 Private Sector

This would involve an open invitation to the leisure management provider market to tender to operate the Council's leisure facilities in accordance with a contract and services specification formulated by the Council to reflect its priorities (similar to that which would be put in place to manage the relationship with a NPDO). Given that it is likely that the Council would be seeking a reduction in service cost and potentially some investment in facilities (which could be funded by the private sector or by the Council), it is likely to involve the expensive and time consuming use of the EU Public Procurement Competitive Dialogue process.

Following the tender exercise and appointment of a contractor, the arrangements for future management of the services would not differ markedly from that of the NPDO except that the Council and local people would not be represented on the board of the contractor or its subsidiaries, i.e.:

1. Leasing the leisure facilities to the private sector contract – N.B. ownership of the buildings would remain with the Council and should the contractor default on the contract, the lease and contractual arrangements would be structured to ensure the buildings revert to the Council.
2. Retention within the Council responsibilities (as a minimum) for structural repairs and maintenance / replacement of major plant and equipment, e.g. pool filters,

	<p>boilers, etc.</p> <ol style="list-style-type: none"> 3. Transferring the current management and staff to the private sector contractor under TUPE provisions and with continued membership of the local government pension scheme 4. Transferring responsibility for all aspects of day-to-day management and delivery of the leisure services to the private sector contractor 5. Drawing up a services contract which sets a framework of minimum service requirements and standards to be provided by the NPDO in exchange for an agreed annual service payment from the Council to the contractor 6. As part of the service contract, establishing performance measures, e.g. levels of participation to be achieved by particular target groups, levels of cleanliness and minimum environmental, safety and other standards to be maintained and maximum charges to be applied together with reporting arrangements to enable the Council to monitor the NPDO's performance against the specified service standards. 7. Potentially, changes to the VAT treatment applicable to activity charges which would increase the net income derived from the existing charges and level of use but increasing the costs of VAT input tax incurred on vatable operational costs. 8. Operating surplus being distributed as profits to the company's shareholders, likely to be outside of Belfast. <p>Under this option, responsibility for any negotiation with staff with regard to working practices would pass to the contractor. Existing staff would be protected by TUPE from enforced changes, but the contractor would appoint any new staff on working practices and employment terms in line with those used elsewhere in its organisation.</p>
--	---

4.0	Strategic Criteria Appraisal
4.1	<p>In November, Committee considered a number of strategic criteria against which to compare each of the models. These were agreed as:</p> <ol style="list-style-type: none"> A. The scope to maximise savings within a given service level B. Ability to improve the customer experience C. Ability to increase participation especially in areas of need, in order to improve health D. Ability to develop staff and achieve employability outcomes E. Overarching deliverability <p>The full detail for the criteria is attached in Appendix 1.</p>
4.2	<p>At the workshop, Deloitte will give an overview as to how each model 'fits' with each criterion – the costs, benefits and deliverability issues – to enable Members to explore in principle which they consider to be the preferred business model option.</p>

4.3	<p>The Council has already agreed that in order to deliver the £2m savings necessary by March 2016 to fund new leisure facilities as well as build a sustainable, effective service, going forward there is a need for urgent, fundamental change.</p> <p>Therefore, whichever business model is preferred by Committee, there is a need for:</p> <ul style="list-style-type: none"> • A renewed customer and community focus • Performance-focussed, effective management with the flexibility to respond to opportunities as they arise • Robust business planning • Strong brand and marketing to compete with the private sector • Increased income to cross-subsidise for targeted and concessionary programmes • A culture of continuous innovation and development • Fresh programming and products – swimming; gyms; multi-generational programmes • Flexible job roles and working practices which meet the needs of the service, the customer and the community • Focus on staff development and learning • A service that reaches outside of its walls.
------------	--

5.0	Consideration of implications
5.1	<p>Legal advisors will be available at both workshop sessions to give guidance and assurance on the implementation of each of the 3 models, including procurement issues.</p> <p>Jerry Gould is the expert advisor on the Deloitte team who has advised 43 Councils on similar decisions, as well as over 19 years experience in the local government sector.</p>
5.2	<p>This is a major physical and service transformation process and the implications for resources (staff, assets and financial) will be fully scoped and assessed as part of the business planning process, with continuous engagement with staff and trade union reps as appropriate. This will be the next stage following SP&R's 'in principle' decision.</p>

5.0	Next steps
5.1	<p>At the two workshops (5 and 6 Dec), elected members will be asked to consider which of the three business models is the 'best fit' with the strategic criteria agreed by Council. This is to inform the discussion at SP&R Committee on 13 December, when committee will be asked to agree in principle its preferred option.</p> <p>Following that decision by Committee, work will be undertaken in early 2014 on:</p> <ul style="list-style-type: none"> – Defining the outcomes for implementation (<i>elected members</i>) – Defining the performance principles (<i>elected members</i>)

- Governance, if NPDO is the preferred option (*elected members*)
- Consultation and engagement with staff and trade unions
- Human resource planning including staff development
- Business planning
- Due diligence to give assurance to Members on the financial, legal and resource implications

A further decision will be taken by Strategic Policy and Resources Committee in early 2014, to agree key outcomes and principles needed for the next stages in planning.

7.0 Equality and Good Relations considerations

7.1 Provision has been made within resources to screen the programme at relevant intervals in line with the Council's equality obligations.

An overarching equality strategy for the LTP will be completed, which will include high-level objectives, screening, consultation and identification of mitigating actions.

8.0 Decisions required

Members will review and assess the three potential business models at the workshops and the Strategic Policy and Resources Committee on 13th December 2013 will be asked to indicate its preferred option in principle.

Appendix 1 – as agreed by SP&R Committee 22 November 2013

	Criterion	Rationale	Which option offers the most potential for:
A.	The scope to maximise savings within a given service level	The potential of the option to grow the business and make savings. The Council requires £2m savings by March 2016 to deliver an enhanced asset base in outer West and Outer East under LGR.	<ul style="list-style-type: none"> - smarter management leading to efficiencies in relation to overtime / enhanced pay - enhanced income (both users and secondary spend) contributing to cash savings - tax efficiencies (e.g. VAT)
B.	Ability to improve the customer experience	The likelihood of an option improving the quality of the customer experience of the Council's leisure service including using the leisure centres and the technological interface (e.g. booking classes online).	<ul style="list-style-type: none"> - more customer focused leadership - more performance focused culture among staff - more customer friendly technology interface - systems that support smarter service delivery
C.	Ability to increase participation especially in areas of need, in order to improve health	The likelihood of an option to improve the health of local communities (especially those in areas of social need) through for example increased user numbers.	<ul style="list-style-type: none"> - increasing user numbers - smarter programming, pricing and outreach to attract target groups - incentives for staff for increasing user numbers - flexibility and ability to partner and take strategic opportunities
D.	Ability to develop staff and achieve employability outcomes	The likelihood of an option in facilitating staff development. It recognises the success of the leisure service is closely linked to capabilities of the staff team being realised.	<ul style="list-style-type: none"> - culture of training, development and career progression - refreshed leadership to motivate staff - incorporation of social clauses and apprenticeships - incentives linked to performance of the business
E.	Overarching deliverability	This criterion will consider whether there is evidence that a delivery option can realistically fulfil the objectives the Council wants, which in practice can be evidenced as actually delivering significant savings, cultural change and improved participation and customer satisfaction.	