



## Belfast City Council

<b>Report to:</b>	Strategic Policy and Resources Committee
<b>Subject:</b>	<b>Leisure Transformation Programme – business model assessment</b> <b>RESTRICTED</b>
<b>Date:</b>	13 December 2013
<b>Reporting Officers:</b>	Peter McNaney, Chief Executive Andrew Hassard, Director of Parks and Leisure Ronan Cregan, Director of Finance and Resources
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<b>1.0</b>	<b>Relevant background information</b>
<b>1.1</b>	Under the Investment Programme Implementation Plan, agreed by Strategic Policy and Resources Committee in June 2012, SP&R agreed the urgent need to review its leisure estate. Following this, a piece of work was commissioned to provide an evidence base on Belfast's leisure estate needs, specifically the current status of the leisure estate and outline options drawing on best practice.
<b>1.2</b>	<p>This report is the culmination of a year of work and consideration by Committee. In January 2013, Committee agreed principles for decision-making to inform future decisions regarding leisure provision. This included: <b>focus on health and well-being; value for money; partnership; and balanced investment</b> across the city.</p> <p>Subsequently, a report written by Deloitte was presented to Committee in March 2013, which highlighted three potential business models for the delivery of leisure services in the city. These were: <b>transformed in-house</b> direct delivery; a <b>non-profit distributing organisation</b> (e.g. social enterprise); or a partnership with the <b>private sector</b>. It was agreed that Members and officers would undertake study visits to examine good practice elsewhere.</p> <p>In June 2013, Committee received an overview of the estimated capital expenditure and potential financing options to deliver leisure transformation. It agreed an affordability limit of £105m and capital financing strategy. This included a requirement for <b>£2m savings from the leisure services budget, by April 2016</b>.</p> <p>In August, Committee agreed a 4-stage transformation programme, as follows:</p> <ul style="list-style-type: none"> <li>i. <b>Information gathering:</b> study visits and research on all 3 business model</li> </ul>

	<p>options;</p> <p>ii. Presentation of a <b>detailed analysis of the pros and cons</b>, benefits and costs of each option will be presented to Committee in late 2013;</p> <p>iii. Developing the <b>business plan</b> (early 2014); and</p> <p>iv. <b>Implementation</b> (mid-late 2014).</p> <p>Throughout the process to date, Committee has emphasised the importance of regular and transparent engagement with staff and trade union representatives. This has included regular meetings as well as a study visit to Greenwich Leisure Limited. As a result of this engagement, and at the request of the trade unions, Committee granted authority to undertake an ‘expression of interest’ exercise for voluntary redundancy in October.</p> <p>In October, Committee also agreed that it would consider each of the business cases and make an <b>‘in principle’ decision on the preferred business model</b>.</p>
<b>1.3</b>	<p>In order to take an ‘in principle’ decision, Deloitte were appointed to develop the 3 business model options, and provide an analysis of the costs, benefits and sustainability of the three models. Deloitte also prepared strategic criteria for Committee’s assessment of the preferred business model, based on the principles agreed in January as well as the need to £2m savings from the leisure services budget, by April 2016. The criteria are:</p> <ul style="list-style-type: none"> <li>– The scope to maximise savings within a given service level;</li> <li>– Ability to improve the customer experience;</li> <li>– Ability to increase participation especially in areas of need, in order to improve health;</li> <li>– Ability to develop staff and achieve employability outcomes;</li> <li>– Overarching deliverability.</li> </ul>
<b>1.4</b>	<p>Two workshops were held (5 &amp; 6 December) to which all Members of Council were invited.</p>

<b>2.</b>	<b>Key issues</b>
<b>2.1</b>	<p><b>‘In Principle’ decision</b></p> <p>The purpose of this report is to formally present the 3 options and the costs/benefits analysis to Committee, for its consideration on its preferred business model. This will be an ‘in principle’ decision; this means that Committee will indicate a ‘direction of travel’ for the future delivery of leisure services, which will enable officers, with Members’ strategic input, to develop a detailed business plan, drawing on expert advice, as required. Allocation for this has already been made in the resourcing plan agreed by Committee in August 2013.</p>
<b>2.2</b>	<p>The purpose of an ‘in principle’ decision at this point is that it enables officers to develop detailed plans which will realise the £2m efficiency savings from leisure service budgets, as part of the capital financing strategy. It will also provide adequate time for</p>

	<p>consultation and engagement with staff and trade union representatives. In addition, there will be opportunity to engage with key strategic partners such as the Public Health Agency in order to plan collaboratively to deliver increased health and well-being outcomes.</p> <p>All of these considerations will be fed into the business planning process, set within a strategic framework agreed by Members.</p>
<b>2.3</b>	<p>A full business plan will be subject to due diligence testing over the period March-May 2014. It is planned that this business plan with the appropriate legal and financial assurances will be presented to Committee in <b>June 2014</b>. At this point, Committee will be asked on the basis of the business plan, due diligence reports and other relevant analysis e.g. equality screening to confirm (or otherwise) its 'in principle' decision.</p> <p>If, at this point, the Committee is not satisfied with the robustness of the business plan and its capacity to deliver its strategic objectives, then it can decide to pursue a different delivery model.</p>
<b>2.4</b>	<p><b>Business model options</b></p> <p>At the workshops, representatives from Deloitte outlined the detail of the 3 options under consideration. The workshops were an opportunity for Members to examine future business model options and to understand the legal and resource implications of the decision.</p> <p>The briefing paper which outlined the business model options and Deloitte's presentation from the workshop are attached as appendices to this report. A summary of the key issues is presented below.</p>
<b>2.5</b>	<p><b>Options overview</b></p> <p>In their summary report, Deloitte outlined 3 business models:</p> <ul style="list-style-type: none"> <li><b>i. Transformed In-House</b> <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> </li> <li><b>ii. Non Profit Distributing Organisation (NPDO)/Social Enterprise/Trust</b> <p>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. The NPDO would seek to pursue a wider public good. Its surpluses would be reinvested for public good/into the service and asset base. Elected members would set the terms of the contract specification (e.g. outcomes), make the initial appointments to the board of Directors, agree targets for inclusion in a contract, set</p> </li> </ul>

social clauses, monitor and scrutinise implementation and set a performance reporting timetable. The ownership of the buildings would remain with the Council. Existing management and staff (under TUPE provisions) as well as responsibility for all aspects of day-to-day management and operational delivery of the leisure services would transfer to the new NPDO, subject to legal advice and consultation.

**iii. Private Sector Partnership**

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. 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 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, and any operating surplus being distributed as profits to the company's shareholders, likely to be outside of Belfast.

**2.6 Costs and benefits**

In November, Committee considered a number of strategic criteria against which to compare each of the models. As a high-level summary of the costs and benefits of each model in relation to the criteria, Deloitte noted:

**i. Transformed In-House**

*Benefits:* has public value as its core purpose already; easily understood as a direct deliverer; and with least disruption to staff

*Cost:* Requires fundamental change programme with dedicated management time; competes with other significant corporate pressures e.g. local government reform; and under-developed commercial/customer focus

**ii. Non Profit Distributing Organisation (NPDO)**

*Benefits:* Single focus organisation with public value purpose and additional financial advantages e.g. VAT benefit; access to government grants; surpluses ring-fenced for re-investment into public good purposes; sectoral commercial/customer expertise available; city's elected leadership continue to set strategic direction of delivery

*Cost:* Requires fundamental change programme; establishment of new organisation with new governance required; new role for Council as commissioning body, setting strategic objectives rather than day-to-day delivery

**iii. Private Sector Partnership**

*Benefits:* Quickly able to import ready-made programmes and systems; contractual

	<p>obligation to meet targets</p> <p><i>Cost:</i> public value not core purpose; working practices different to public/NPDO sectors; and surpluses distributed to private shareholders.</p> <p>A more detailed analysis of the costs and benefits by Deloitte is contained within the presentation (Appendix 3).</p>
<p><b>2.7</b></p>	<p><b>Deliverability</b></p> <p>As a high-level summary of the deliverability of each model, Deloitte concluded:</p> <ul style="list-style-type: none"> <li><b>i. Transformed In-House</b> Needs radical change programme to achieve and sustain what has been difficult before; and implementation and management of a robust employee/service performance framework.</li> <li><b>ii. Non Profit Distributing Organisation (NPDO)</b> A single focus organisation with the opportunity to import skilled leadership and expertise from other NPDOs; there are over 100 examples of successful delivery of NPDO option.</li> <li><b>iii. Private Sector Partnership</b> Likely to involve long and expensive procurement process; and need to generate commercial profit will require significantly reduced costs/increased income.</li> </ul> <p>Importantly, there is evidence to suggest that both the NPDO and private sector partnership options could deliver efficiencies within the timeframe agreed by Council i.e. April 2016.</p>
<p><b>2.8</b></p>	<p><b>Financial analysis</b></p> <p>In terms of the financial benefits of the 3 models, Deloitte undertook a comprehensive financial analysis examining smarter management, enhanced income and any tax efficiencies (e.g. VAT). They concluded that the indicative like-for-like saving/cost over the same timeframe compared to the status quo was as follows:</p> <ul style="list-style-type: none"> <li><b>i. Transformed In-House</b> This option could facilitate savings and increase income, but would require the Council to significantly change the way it currently manages leisure services and to dedicate significant time and effort to implementation. <i>Net saving = <u>£582,500</u></i></li> <li><b>ii. Non Profit Distributing Organisation (NPDO)</b> This provides a single-focus entity which can bring in business skills at board level to address the cost savings and income generating opportunities (whilst operating within a service standards framework set by the Council). In addition, the option can access VAT-related savings greater than any other operating model. It also opens up opportunities for accessing grants and commercial sponsorship deals</li> </ul>

	<p>many of which are unavailable to either local authorities or private sector operators.  <i>Net saving = <u>£2,160,477</u></i></p> <p><b>iii. Private Sector Partnership</b></p> <p>The private sector option offers the advantage of ready-made solutions to reduce costs and enhance income and may therefore be able to offer a bigger saving on day one. However, due to inherent financial disadvantages, the savings potential of this option is unlikely to be as great over the longer-term.</p> <p><i>Net saving = <u>£1,758,639</u></i></p> <p>A detailed breakdown is included in Deloitte’s presentation (Appendix 3).</p> <p>Deloitte highlights that the savings to be delivered in-house are dependent on the Council’s willingness and capacity to dedicate the time and resource to take all of the challenging decisions required in a complex, competitive leisure market, at the same time as manage the pressures of local government reform, the Investment Programme, etc.</p> <p>In their opinion therefore, Deloitte has indicated that it is most unlikely that the Council would achieve the optimum savings and have therefore assumed that the in-house model will make 20% of the potential staff savings and 50% of the income improvement potential, based on their financial modelling.</p>
<p><b>2.9</b></p>	<p><b>Workshop feedback</b></p> <p>In consideration of the analysis presented at the 2 workshops and subsequent Member discussion, it is apparent that Members are keen to ensure that any new business model will:</p> <ul style="list-style-type: none"> <li>– Position the Council’s leisure and well-being provision to be a ‘best-in-class’ service;</li> <li>– Maximise the benefits of an unprecedented £105m capital investment in the city;</li> <li>– Significantly improve the value for money of the service, in order to safeguard its longer term sustainability, as well as deliver savings for new facilities;</li> <li>– Retain the Council as ‘democratic guardians’ to oversee the delivery of a wide range of social outcomes not limited to health and participation;</li> <li>– Enable and attract more people to be more active, more often;</li> <li>– Protect the interests of staff, in particular relation to pensions and a fair wage;</li> <li>– Target services to meet local needs – rather than the historic one-size fits all;</li> <li>– Maximise the opportunity to integrate services across the Council as well as with other public services such as health and education providers;</li> <li>– Catalyse a future-orientated conversation on the mix, quantity and locations of the leisure estate, to reduce and eliminate the legacy of duplicated provision; and</li> <li>– Facilitate a radical overhaul of management and working practices.</li> </ul>
<p><b>2.10</b></p>	<p><b>Timeline</b></p>

	<p>On the basis of the information prepared by Deloitte, SP&amp;R Committee is being asked to make an 'in principle' decision on the preferred business model. This will enable Members, officers and relevant advisors, where necessary, to undertake preparatory work over <b>January-March 2014</b>:</p> <ul style="list-style-type: none"> <li>- Defining the outcomes for implementation (<i>elected members</i>)</li> <li>- Defining the performance principles (<i>elected members</i>)</li> <li>- Governance, if NPDO is the preferred option (<i>elected members</i>)</li> <li>- Consultation and engagement with staff and trade unions</li> <li>- Full financial review</li> <li>- Human resource planning</li> <li>- Business planning</li> <li>- Due diligence to give assurance to elected members on the financial, equality, legal and resource implications.</li> </ul>
<p><b>2.11</b></p>	<p><b>Communication and engagement with staff and trade unions</b></p> <p>Committee has emphasised the importance of effective communication with those employees that are most affected and their representatives, to address any concerns. Importantly, an 'in principle' decision on Committee's preferred model will enable management to formally consult with the trade unions on a specified preferred model, rather than options. This will focus discussions on key issues as they relate to a single operating model e.g. pensions; terms and conditions; use of casual contracts.</p> <p>In addition, if NPDO or private sector partnership is the preferred model, the decision will enable concrete discussions on the Transfer of Undertakings (Protection of Employment) TUPE regulations. The purpose of TUPE is to protect employees if the business in which they are employed changes hands.</p> <p>Senior management are working closely with trade unions and a series of staff road-shows, newsletters and team briefings are planned over the next 12 months.</p>
<p><b>2.12</b></p>	<p><b>Correspondence from trade unions</b></p> <p>The Trade Union Group has written to the Chief Executive (04 December 13). They have requested that a deputation from the Trade Union Group be received by Strategic Policy and Resources Committee at its meeting on 13 December. The purpose would be to present their views on the issue of future operating models for Leisure Services. They would like the opportunity for Members to hear from the Trade Union side prior to any decision being made.</p> <p>It would be normal protocol, to consider the request from the Trade Union Group and to invite them to attend the first meeting of SP&amp;R Committee in January. However given the urgent need for decisions to be taken on the preferred operating model members could on this occasion give consideration to acceding to their request and allow them to make a</p>

	presentation to the committee.
<b>2.13</b>	<p><b>Next steps</b></p> <p>Committee is now asked to consider each of the business cases and make an ‘in principle’ decision on its preferred business model. This will grant officers authority to develop a detailed business plan, drawing on expert advice, which will be subject to due diligence testing over the period March-May 2014. Depending upon the Council’s decision, it will also enable the development of potential vehicles to further develop the work such as the creation of a shell company established for charitable purposes.</p> <p>It is anticipated that SP&amp;R Committee would be asked to agree its strategic objectives for implementation in <b>February 2014</b>.</p>
<b>2.14</b>	<p><b>Capital planning</b></p> <p>Members will be aware that part of the capital financing strategy is dependent upon £2m efficiency savings from leisure service budgets. In order to ensure that this is in place by 2016, these efficiencies must be included in the estimates planning cycle beginning in September 2014.</p> <p>The ‘in principle’ decision will also confirm the affordability limit for the next phase of the transformation of the physical leisure estate, based on the savings derived from the leisure services budget. A saving of £2m will release approximately £23.50m of capital expenditure. It is planned that political discussions on the area investments will commence early in 2014.</p>
<b>2.15</b>	<p><b>Conclusion</b></p> <p>This is an ambitious timeframe within which to business plan for a radically changed business model, and if the NPDO or private sector partnership option is selected, negotiate contracts and establish appropriate governance. All options will require a significant human resources programme including learning and development; job role evaluations; and individual performance management systems.</p> <p>It is recognised that whichever model is selected, this is a decision which catalyses radical transformation, and shapes and sustains leisure and well-being services in the city for now and for generations to come.</p>

<b>3.0</b>	<b>Decisions required</b>
	<p>Committee is asked to <b><u>either</u></b>:</p> <ol style="list-style-type: none"> <li>1. Consider the information contained in the report and appendices, and to indicate their preferred ‘in principle’ business model option. On this basis, to grant authority to officers to undertake the necessary steps to undertake work to prepare a business plan and due diligence reports for consideration at Committee in June 2014. It will also grant authority to</li> </ol>



facilitate formal consultation with staff and the trade unions; or

2. Receive the representation from the TU Group and defer consideration of the decision to the second meeting of the SP&R Committee in January 2014

#### **4.0 Resource Implications**

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.

#### **5.0 Equality Implications**

Provision has been made within resources to screen the Leisure Transformation Programme at relevant intervals in line with the Council's equality obligations. A high-level Equality Impact Assessment is currently being prepared and will be presented to Committee in due course for its approval.

#### **6.0 Appendices**

1. Chronology of Committee decisions related to Leisure Transformation Programme
2. Briefing paper for the Leisure Transformation Programme Members' workshop – examining the future business model options 5/6 December
3. Leisure Management Options – Deloitte PowerPoint presentation
4. Potential characteristics of any future Belfast Non Profit Distributing Organisation