

Belfast City Council  
Leisure Management Options

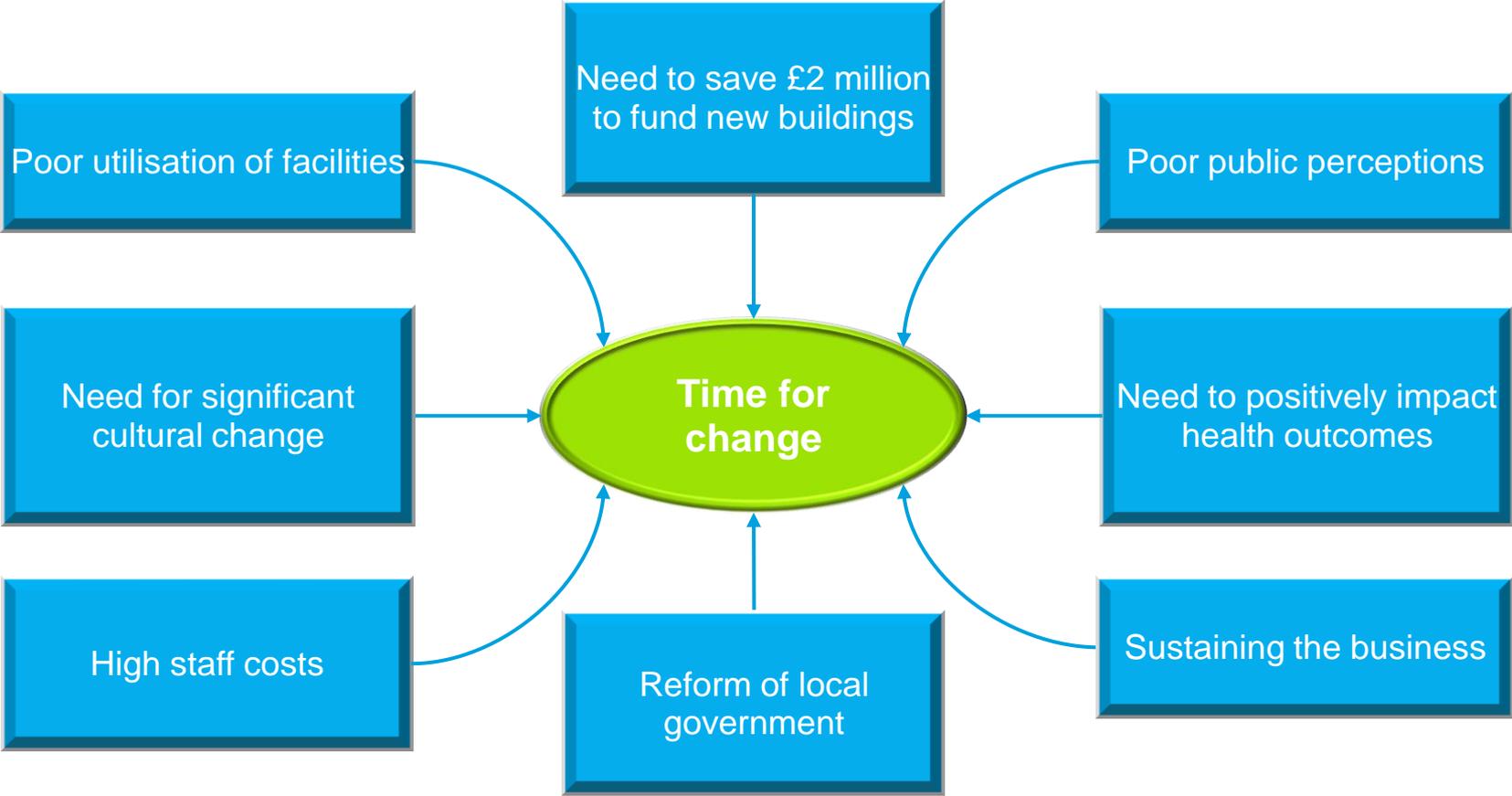


# Agenda

1. The Current Position
2. The Evolution of Leisure Management Solutions
3. The Options Considered
4. Strategic Evaluation Criteria
5. The Options Compared
6. Is the Opportunity for Improvement Real
7. Questions, Clarification and Discussion



# The Current Position



# The Evolution of Leisure Management in GB

- Mid 19<sup>th</sup> century to mid-20<sup>th</sup>
  - Focus on improving health through cleanliness
- 1960's -1980's
  - A period of growth in provision
  - Significant demographic change
  - All managed by in-house teams
- 1980's to Early 1990's
  - Compulsory Competitive Tendering
  - Creation of new specialist contractors
- Mid 90's to Present Day
  - The birth of leisure NPDOs – now 100+ in GB
  - Specialist contractors have had to adapt
- Looking Forward
  - Increased competition / new market entrants
  - Financial / service demand pressures
  - Facility condition challenges / rationalisation
  - Expectation to deliver social outcomes



# The Options to be Considered

## Transformed In-House

As now, BUT requires radical change:

- Programme of significant culture change needed
- Adoption of more commercial / customer focused approach to management
- Alignment of working practices to industry norms

## NPDO

- Council retains ownership of & responsibility for the buildings
- Council as 'democratic guardian' sets a framework of operating parameters, e.g. Opening hours, charges, target groups, etc.
- Council sets up single focus NPDO which employs staff and manages delivery of services and uses 100% of surpluses to develop local services

## Private Sector Contractor

- Council retains ownership of & responsibility for the buildings
- Council sets a framework of operating parameters, e.g. hours, charges, etc.
- Support services provides employment away from Belfast at contractor HQ
- Contractor brings ready-developed / tested systems & solutions
- Operating surpluses become profits distributed to private shareholders

# Strategic Evaluation Criteria

The Council identified five Strategic Evaluation Criteria against which it wished to assess the three options, i.e.:

| Criterion  | Rationale  |
|--|--|
| <b>A</b> 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                       |
| <b>B</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). |
| <b>C</b> 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   |
| <b>D</b> 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                               |
| <b>E</b> Overarching deliverability  | This criterion considers whether there is evidence that a delivery option can realistically fulfil the objectives the Council wants  |

# A: The Options Compared – Scope to Maximise Savings

| Transformed In-House  | NPDO  | Private Sector   |
|---|---|--|
| <ol style="list-style-type: none"> <li>1. Requires dedicated Council time and effort</li> <li>2. Needs to compete with other pressures</li> <li>3. Some required changes not compatible with wider Council norms</li> <li>4. Savings / operating surpluses not ring-fenced for leisure</li> <li>5. But if this is possible why hasn't it happened before ?</li> </ol> | <ol style="list-style-type: none"> <li>1. Estimated £480,000 (£260,000 net) VAT benefit</li> <li>2. Single focus organisation</li> <li>3. Brings in additional business skills</li> <li>4. Can align working practices with industry norms</li> <li>5. Scope to work with NPDO partners</li> <li>6. Access to grants / commercial sponsorship, e.g. DEL apprenticeship programme</li> <li>7. Procure supplies at lower costs</li> <li>8. Operating surpluses ring-fenced</li> </ol> | <ol style="list-style-type: none"> <li>1. Ready-made solutions can be deployed quickly</li> <li>2. Price tendered is guaranteed</li> <li>3. Some VAT benefit through hybrid structure</li> <li>4. Commercial return has to be paid for through contract fee</li> <li>5. Surpluses distributed to shareholders</li> </ol> |

# B: The Options Compared – Improving Customer Experience

| Transformed In-House  | NPDO   | Private Sector   |
|---|--|--|
| <p>Radical transformation of previous approaches will require:</p> <ol style="list-style-type: none"> <li>1. Prioritised management time</li> <li>2. Change champions</li> <li>3. Commercial approach and skills</li> <li>4. KPI monitoring / feeding back</li> <li>5. Peer group pressure / competition</li> <li>6. Targeted reinforcement of previous training</li> <li>7. Performance management &amp; incentives</li> <li>8. New MIS, cash-receipting, booking and customer access systems</li> <li>9. Modern marketing techniques, e.g. member tracking</li> </ol> | <p>Needs the same enhancements to as Council, but option offers:</p> <ol style="list-style-type: none"> <li>1. Single focus organisation without competing pressures</li> <li>2. Eliminates need for focused senior Council management time</li> <li>3. Access to board business skills</li> <li>4. Leaves Council to focus on performance of the NPDO not employees</li> <li>5. Streamlined governance / decision making</li> <li>6. Easier introduction of performance management and incentives</li> <li>7. Consistent quality</li> </ol> | <p>Needs the same enhancements to as Council, but option offers:</p> <ol style="list-style-type: none"> <li>1. Single focus organisation without competing pressures</li> <li>2. Can deploy ready-made culture change programmes and supporting systems / processes</li> <li>3. Ready-developed performance management &amp; incentives</li> <li>4. Ready-made MIS, cash-receipting, booking, customer access systems</li> <li>5. Ready- made modern marketing techniques</li> <li>6. Profit motive to maximise customer experience</li> </ol> |

# C: The Options Compared – Increasing Participation

| Transformed In-House  | NPDO   | Private Sector  |
|---|--|---|
| <ol style="list-style-type: none"> <li>1. Can build on past successes</li> <li>2. Public Value a core purpose</li> <li>3. Existing partnerships, e.g. Public Health Agency</li> </ol> <p>BUT:</p> <ol style="list-style-type: none"> <li>4. Needs to address significant areas of participation weakness</li> <li>5. Some grants not available</li> <li>6. Needs to find match-funders to access some grants</li> <li>7. Difficult to link performance incentives to participation</li> </ol> | <ol style="list-style-type: none"> <li>1. Can build on Council's past successes</li> </ol> <p>BUT, also offers:</p> <ol style="list-style-type: none"> <li>2. Single focus public value organisation</li> <li>3. Natural partner for many third sector organisations</li> <li>4. Access to some additional sources of grant funding</li> <li>5. Use of surpluses as match funding for Council grant applications</li> <li>6. Ring fencing of surpluses for public value purposes</li> <li>7. Easier introduction of participation-linked performance incentives</li> </ol> | <ol style="list-style-type: none"> <li>1. Can build on Council's past successes</li> <li>2. Ready-made programmes for targeting participation</li> <li>3. Will deploy charitable subsidiary</li> </ol> <p>But:</p> <ol style="list-style-type: none"> <li>4. Profit priority once contractual participation requirements met</li> <li>5. Some organisations unwilling to partner profit-distributing contractors</li> <li>6. Could provide match-funding, but only if longer-term financial benefits to contractor</li> </ol> |

# D: The Options Compared – Developing Staff and Improving Employability

| Transformed In-House   | NPDO   | Private Sector   |
|--|--|--|
| <ol style="list-style-type: none"> <li>1. Significant past investment in staff development but impact has been limited and progress slow</li> <li>2. Management efforts diluted by wider Council requirements</li> <li>3. Slow decision making / governance processes</li> <li>4. Heavy reliance on corporate support which has wider pressures</li> <li>5. Alignment with Council policies and procedures that are not solely focussed to leisure management</li> <li>6. Focus on cost reduction rather than bottom-line improvement</li> <li>7. Can link into Council's other regeneration programmes</li> </ol> | <ol style="list-style-type: none"> <li>1. CEO appointment provides opportunity to bring in skills / drive</li> <li>2. Dedicated finance manager focused on driving financial performance</li> <li>3. Team skills enhanced through board</li> <li>4. Subsidising target groups taken in context of public value approach</li> <li>5. Leaner decision making processes</li> <li>6. Managers freed up to focus solely on business needs</li> <li>7. Objects could include use of local suppliers and promotion of apprenticeships</li> <li>8. Access to grants / commercial sponsorship, e.g. DEL apprenticeship programme</li> </ol> | <ol style="list-style-type: none"> <li>1. May do no more than the contract requires</li> <li>2. Support to avoid contractual sanctions not as a public value priority</li> <li>3. Likely to do minimum to access apprenticeship grants</li> <li>4. Procurement policies focused on minimising costs not supporting the local economy i.e. Framework providers</li> <li>5. Key focus will be maximising profit for company shareholders outside of Belfast</li> </ol> |

## E: The Options Compared – Deliverability by 2016

| Transformed In-House  | NPDO  | Private Sector  |
|---|---|---|
| <ol style="list-style-type: none"> <li>Needs radical change programmes to achieve what has been difficult before</li> <li>Will require dedicated senior Council management time</li> <li>Has to compete with pressures of LGR</li> <li>Needs to counter NPDO VAT advantage</li> <li>Needs to ensure improvement is sustained</li> <li>Needs to adopt and implement robust employee performance management measures and incentives.</li> </ol> | <ol style="list-style-type: none"> <li>Single focus</li> <li>Importing refreshed and skilled leadership</li> <li>Over 100 examples of successful delivery of the NPDO option</li> <li>Many examples of significant financial improvement</li> <li>Legal view that transfer can be achieved quickly</li> </ol> | <ol style="list-style-type: none"> <li>Many recent examples</li> <li>Long and expensive procurement processes</li> <li>To overcome the need to make a commercial profit, needs to generate significantly greater income increases / reduced costs than an NPDO</li> <li>Some local authorities that used this option now choosing NPDO at contract expiry.</li> </ol> |

This criterion considers whether there is evidence that a delivery option can realistically fulfil the objectives the Council wants within the capital finance strategy timeframe i.e. By March 2016.

# Is The Opportunity for Improvement Real?

- Staff costs are very high:
  - APSE data shows staff costs as a proportion of total operating costs to be amongst the worst in the comparator group
  - Our detailed analysis of the staff requirements and operating programmes suggested over / inefficient staffing in:
    - Lack of flexible/generic working
    - Role demarcation i.e. job roles
    - Long-standing heavy reliance on overtime
    - Historical over-staffing
- Income opportunities are not being effectively exploited
  - APSE data indicates that the operational recovery rate is low
  - The Leisure Database Company analysis identifies a significant untapped demand for health and fitness memberships
  - Some operational programmes suggest a lack of sophistication and significant gap in swimming instruction provision
  - Mystery visit reports – particular issue with customer experience

# Illustrative Estimates of Medium-Term Savings

## Indicative Annual Savings / Cost Compared to In-House Including Estimated Efficiency Opportunities

### Summary NPDO Financial Option Analysis

#### Savings Generated by NPDO Option

|  | Transformed In-House | NPDO               | Private Sector     |
|--|----------------------|--------------------|--------------------|
| Reductions in Running Costs                            | £ 420,000            | £ 1,575,000        | £ 2,100,000        |
| Income Improvements                                    | £ 162,500            | £ 325,000          | £ 325,000          |
| Output Tax Benefits                                    | £ -                  | £ 501,568          | £ 264,719          |
| Support Cost Reductions (Efficiency Assumption of 20%) |                      |                    | £ 223,306          |
| <b>Total Savings</b>                                   | <b>£ 582,500</b>     | <b>£ 2,401,568</b> | <b>£ 2,913,025</b> |

#### Additional Costs of NPDO Option

|   |            |                  |                    |
|---|------------|------------------|--------------------|
| Unrecoverable Input Tax                                   | £ -        | £ 71,091         | £ 24,580           |
| Finance Manager & Support plus additional Insurance Costs | £ -        | £ 150,000        |                    |
| Statutory Audit & Ad Hoc Legal Advice, etc.               | £ -        | £ 20,000         |                    |
| Private Sector Profit / HQ Support Charges                | £ -        |                  | £ 1,129,805        |
| <b>Total Additional Costs</b>                             | <b>£ -</b> | <b>£ 241,091</b> | <b>£ 1,154,386</b> |

#### Indicative Like-for-Like Saving / Cost Compared to Status Quo:

|                  |                    |                    |
|------------------|--------------------|--------------------|
| <b>£ 582,500</b> | <b>£ 2,160,477</b> | <b>£ 1,758,639</b> |
|------------------|--------------------|--------------------|

## Next steps

- Strategic Policy and Resources Committee **13 December 2013**
  - 'In principle' view on preferred business model
- Preparatory work **January – March 2014**
  - Defining the outcomes for implementation (*elected members*)
  - Defining the performance principles (*elected members*)
  - Governance, if NPDO is the preferred option (*elected members*)
  - Consultation and engagement with staff and trade unions
  - Human resource planning
  - Business planning
  - Due diligence to give assurance to elected members on the financial, legal and resource implications
- Strategic Policy and Resources Committee **February 2014**
  - Decision on key outcomes and principles needed for the next stages in planning

# **Questions, Clarifications and Discussion**