

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Strategic Commissioning Committee
<b>DATE</b>	29 August 2019
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Options for changing the delivery model for services provided by the Beach Ballroom.
<b>REPORT NUMBER</b>	PLA/19/366
<b>DIRECTOR</b>	
<b>CHIEF OFFICER</b>	Richard Sweetnam
<b>REPORT AUTHOR</b>	Richard Sweetnam
<b>TERMS OF REFERENCE</b>	Remit 2.3 and 4.3

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### 1. PURPOSE OF REPORT

This purpose of this report is to provide Committee with the findings of an appraisal of options to deliver services provided by the Beach Ballroom.

### 2. RECOMMENDATION(S)

That the Committee: -

- 2.1 Instructs the Chief Officer City Growth to progress the development of Option 2 and submit it for inclusion in the Council's budget setting process.

### 3. BACKGROUND

- 3.1 The Beach Ballroom was built in 1929 and is a unique art deco, Category B listed building under the ownership and management of Aberdeen City Council. The key services are food production/service, bar service, event management and technical support and civic catering services.
- 3.2 Sales are derived from three main sources: external events (entertainment, corporate, weddings, funerals), internal Council events and Civic events. In general, sales are generated from ticketed events promoted by the service, around 4,000 in the year to date (4,500 in 2018/19), catering/ bar and venue hire. For ticketed events attracting the biggest footfall, for example, concerts, they are promoted by other providers, and the benefit to the venue is hire/ bar takings. 34% of sales comes from licensed sales, 44% from food and catering activity, including at the Townhouse; and 22% from venue hire.

- 3.2 There are 11 full time, 6 part time and approximately 70 casual staff.
- 3.3 At the Council's Budget meeting in March 2019, the Chief Officer of City Growth was instructed to explore options for changing the delivery model for services provided by the Beach Ballroom...providing all staff would be protected through a TUPE transfer and/or secondment where applicable.
- 3.5 Since then, officers have been exploring the options in more detail looking at the various options that meet the overall objectives of the project to:
- Ensure that the Beach Ballroom continues to operate and provide an iconic venue in the city;
  - Ensure that the venue is financially sustainable in the long term in the context of changes to the Council's revenue budget;
  - Ensure that the appraisal reflects the Target Operating Model aims of reducing cost and increasing efficiencies; and
  - Ensure that the wellbeing of all permanent staff is maintained.
- 3.6 The approach involved analysis of operational information on the Beach Ballroom, consultation with staff and trade unions and a 'market testing exercise'.

#### 4. OPTIONS

- 4.1 HM Treasury Guidance recommends that appraisal options are compared to a 'do nothing' or 'business as usual' option in order to reflect the difference of any change proposals. The options therefore are:
- **Option 1 – 'Do nothing' – the Beach Ballroom operates within its existing budget and resource;**
  - **Option 2 – 'Council Invests' – an improvement plan is implemented, complemented by further investment to support the overall financial performance of the business, sales and marketing activity; and**
  - **Option 3 – 'Service is Tendered' – an external operator runs the Beach Ballroom under a contract with the Council.**
- 4.2 Under Option 1, it is assumed that the operation would continue to be challenged in covering its costs, potentially resulting in a lack of reinvestment in the management and operation of the business and the building.
- 4.3 While staff and other costs savings have been delivered as part of the 2019/20 budget, continuing to rely on savings from this source and keeping the Beach Ballroom competitive while growing the business is unlikely to be sustained in future years. Therefore Option 2 assumes that the Beach Ballroom continues to operate within the Council, but an improvement plan is put in place that seeks to improve financial performance – focused on both increasing sales/ turnover and a reduction in costs. Within the City Growth service redesign, commercial support to the Beach Ballroom would be provided in order to support turnover and sales' margins.
- 4.4 Option 3 assumes that the Council could seek to procure the delivery of the Beach Ballroom and its services from a third-party supplier. The Council would seek to contract management and operation of the Beach Ballroom, with the

contractor assuming all the operating risk under the terms of its contract. If this option were progressed, all staff would be protected by TUPE transfer. As part of the work for this appraisal, in May 2019, the Council's Procurement Services issued a market engagement Request for Information on potential providers willing to respond to the offer to provide public and event catering at the Beach Ballroom. Two initial notes of interest were received through this exercise.

4.5 In the course of this work, consultation has been carried out with Beach Ballroom staff, Trade Unions, city growth, corporate landlord, finance, procurement and legal officers. In the March to June period, six meetings have occurred with staff and trade union representatives. Comments and feedback from these meetings were that the Council should retain the operation of the Beach Ballroom and invest in its improvement and that this should be reflected in the options appraisal.

## 5. OPTIONS APPRAISAL

5.1 Table 1 below summarises the likely costs and benefits of each option.

<b>COSTS:</b>	<b>Option 1</b>	<b>Option 2</b>	<b>Option 3</b>
Revenue	Loss of £187k forecast in 2019/20 mitigated by cost reduction to date  Assumes cost pressures remain in 2020/21 and beyond	Reinvestment needed in commercial, sales and marketing expertise and at the same time continued cost reduction exercise required in order to become more competitive in the face of stronger local competition.  In addition, reducing operational subsidy to £100k in year 1.	The Council would seek to appoint an operator under a concession arrangement or under a fee arrangement depending on the best option for the Council.
Capital	£200k committed in 2019/20 for essential repairs and maintenance  This would not include a long-term liability for a new roof, indicatively estimated at around £2m	£200k planned in 2019/20 for essential investment  This does not include the potential need to fund a replacement roof, indicatively estimated at around £2m	Either arrangement would need to consider investment in the building, probably funded by the Council
Non Monetary	Threat of closure and loss of an	Risk remains with the Council and there is	Reputational mitigated by TUPE

<b>COSTS:</b>	<b>Option 1</b>	<b>Option 2</b>	<b>Option 3</b>
	iconic attraction to the city with staff displaced	still a threat to its operation.  Competitiveness of a Council run venue in light of market providers – existing venues, hotels etc	
<b>BENEFIT</b>	<b>Option 1</b>	<b>Option 2</b>	<b>Option 3</b>
Viability	Viability in question as operation does not cover its cost on an annual basis	Investment in commercial management and increased sales and marketing activity and at the same time implementing cost reduction measures delivers a more sustainable financial performance.  There is still a risk to the Council if this turnaround is not delivered, mitigated by a reducing operational subsidy.	Risk of non-performance assumed by a new operator
Capital costs	No change	No change	Depending on the nature of the contract, investment in the building would need to be considered  However likely that the potential longer term requirement to fund a replacement roof would remain with the Council
Non Monetary	Reputational, albeit with a significant risk that the business cannot be sustained	Reputational as the Council increases the resource to improve the financial performance of the business while maintaining and enhancing operation	Risk passed to an operator, and business on a sounder operational basis than 'do nothing'

<b>COSTS:</b>	<b>Option 1</b>	<b>Option 2</b>	<b>Option 3</b>
		of the asset	

## **6. FINANCIAL IMPLICATIONS**

- 6.1 Work undertaken on the appraisal indicates that the Beach Ballroom has not been covering its costs over previous financial periods. In 2019/20, officers have delivered the approved budget saving of £146,000 through a combination of staff and cost reduction.
- 6.2 However that cannot be relied on going forward in to operate the business, compete in the current Aberdeen market and deliver a sustainable financial performance. As well as the revenue pressures on growing the business and improving its competitiveness, the Council's capital investment and building repairs budgets are used for external building maintenance to keep the building wind and watertight and to prioritise essential building maintenance. Since 2013/14, the Council has invested £1.1m on capital works on the building, with works to the value of an additional £200,000 anticipated in 2019/20. Recent condition surveys have started to suggest that major refurbishment of the Star Ballroom roof may be necessary, and indicative estimates suggest a capital cost of at least £2m.
- 6.3 If Option 1 is delivered, there is a significant financial risk to the Council in terms of the financial performance of the business over the medium to long term
- 6.4 If Option 2 is agreed, then it would incur a cost to the Council to implement an improvement plan for 2020/21 which would aim to improve margins in the business, and in particular for the catering activities undertaken on and off site. The costs of this additional support would be included within the City Growth service redesign. As well as the investment in improvement by the Ballroom and its services, under option 2 the Council may consider a level of reducing operational subsidy in 2020/21, 2021/22 and 2022/23 to support the improvement plan – e.g. £150,000, £75,000 and £25,000 respectively for each of the three years.
- 6.5 If Option 3 is progressed further legal, finance, procurement advice would be needed on the nature of any procurement – for example, a fixed fee or a concession arrangement.
- 6.6 For all options, responsibility for sustaining the Beach Ballroom as an asset of Council, would remain the responsibility of the Council. Under option 3, officers do not anticipate that this liability would be assumed within the negotiation of a new operational contract.

## **7. LEGAL IMPLICATIONS**

- 7.1 There are no legal implications arising from Options 1 and 2. The Council does have the legal powers to change the delivery model for services provided by the Beach Ballroom.

7.2 Assistance has been provided by finance, procurement and HR on the implication of entering into a such agreement under Option 3. TUPE will apply for the permanent staff members, only for option 3.

## 8. MANAGEMENT OF RISK

8.1 Depending on the decision of the Committee, each option could present a number of risks.

<b>Category</b>	<b>Risk</b>	<b>Low (L) Medium (M) High (H)</b>	<b>Mitigation</b>
<b>Financial</b>	<p>Under Options 1 and 2, the Council would carry all the financial risks which are not sustainable indefinitely.</p> <p>Option 3 - contract management risks. The provider cannot deliver the anticipated benefits.</p>	High (H)	<p>Option 2 would mitigate the financial risk.</p> <p>If an external service provider (option 3) was instructed, and depending on the nature of a contract, all financial risks would be moved to the provider.</p> <p>The market testing response was restricted to two initial notes of interest and there is risk that no, or unfavourable, agreement could be reached.</p> <p>Robust contract management would be essential with regular updates and meetings agreed.</p>
<b>Legal</b>	The Council has the legal powers to change the delivery model.	Low (L)	TUPE would apply for option 3 only.
<b>Employee</b>	Uncertainty a potential risk in terms of staff.	High (H)	<p>Option 2 provides great assurance as it focuses on growing the business</p> <p>Under Option 3, the permanent staff would be transferred over by TUPE.</p>

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
			Staff meetings are held at key points in time – the process has been explained and support offered.
<b>Customer</b>	<p>There has been some uncertainty amongst the customer base during the options appraisal</p> <p>The competitive environment has changed as a result of increased supply of services within the private sector – there is increasing choice for catering and venues and ‘value for money’. This has presented challenges in sales and marketing activity</p>	Medium (M)	Under Option 2 and 3, there would be an opportunity to improve the commercial performance of the operation.
<b>Technology</b>	There is limited technology in use. There is an online booking system and website.	Low (L)	Work is underway to enhance the website. Greater use of social media/google search and cross promoting through partners would be expected to help generate more income. The Beach Ballroom would have access to the promotional resource and expertise of an external provider in option 3.
<b>Reputational</b>	Should the commercial performance not be improved, there will be further pressure on the Council in relation to	Medium (M)	Continued engagement with staff, and customers

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
	delivering the Beach Ballroom. This may result in a negative reputational impact for the Council.		

## 9. OUTCOMES

Local Outcome Improvement Plan Themes	
	Impact of Report
<b>Prosperous Economy</b>	The Beach Ballroom supports the tourism and events sector, and the potential to contribute to the growing tourism employment. <i>The proposals within this report support the delivery of LOIP Stretch Outcome 1 – 10% increase in employment across priority and volume growth sectors by 2026 – food and drink, tourism. 2) 90% of working people in Living Wage employment by 2026. The wage level of the staff employed by the Beach Ballroom is in line with the living wage level and this is part of the growth sector.</i>
<b>Prosperous Place</b>	Aberdeen’s competitiveness as a destination – both for visitors and investors – is supported by a vibrant scene. Maintaining a successful Beach Ballroom is an important contributor to the place agenda in terms of the beach area and Aberdeen365 delivery that is also a key programme area of the CCMP.

Design Principles of Target Operating Model	
	Impact of Report
<b>Customer Service Design</b>	The improvement of the Beach Ballroom’s performance, in response to shifting demand is an important part of the TOM and maximising income opportunities
<b>Organisational Design</b>	The link to the TOM is by redesigning the service to be more efficient – improve income generation and reduce costs



<b>Governance</b>	Reduction in costs and opportunities to link to the wider city Events 365 agenda and operators
<b>Workforce</b>	The link to the TOM is in improving overall productivity of the business and staff wellbeing
<b>Technology</b>	Minimal impact through an updated website.
<b>Partnerships and Alliances</b>	Depending on what option is agreed, the link to the TOM will be to improve greater partnership and collaboration across the sector and maximising links to the Council's tourism and events activity – Cruise activity, Aberdeen Art Gallery and Museums, inward delegations

## 10. IMPACT ASSESSMENTS

<b>Assessment</b>	<b>Outcome</b>
<b>Equality &amp; Human Rights Impact Assessment</b>	Not required
<b>Data Protection Impact Assessment</b>	Not required.
<b>Duty of Due Regard / Fairer Scotland Duty</b>	Not applicable – the event programme is diverse and inclusive.

## 11. BACKGROUND PAPERS

11.1 Council Budget March 5 2019 (RES/ 19/ 201)

## 12. APPENDICES

None

## 13. REPORT AUTHOR CONTACT DETAILS

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