ABERDEEN CITY COUNCIL

COMMITTEE:	Finance Policy and Resources
DATE:	23 April 2015
LEAD OFFICER:	Chief Executive
TITLE OF REPORT:	Potential options for the operation and management of new Aberdeen Exhibition and Conference Centre (AECC)
REPORT NUMBER:	OCE/15/010
CHECKLIST COMPLETED:	YES

1. PURPOSE OF REPORT

On 4 March 2015 Full Council instructed the Chief Executive to report back with options for the operation and management of the new AECC facility.

This report outlines and assesses options for the future operation and management models for the new AECC. It also highlights the requirement to undertake a market testing exercise of exhibition and conference centre operating and management options and seeks approval of the total estimated expenditure for the market testing exercise.

2. RECOMMENDATION(S)

It is recommended that members:-

(a) instruct the Chief Executive to undertake a market testing exercise on the three viable options identified for the operation and management of the new AECC in this report;

~~(a)~~(b) approve the total estimated expenditure to undertake the market testing exercise; and;

~~(b)~~(c) report the findings of the exercise with a recommendation on the most appropriate model to the Finance, Policy and Resources Committee in September 2015.

3. FINANCIAL IMPLICATIONS

The market testing exercise, including procurement and legal processes, for the operation and management of the new AECC will be funded from the existing AECC budget and existing staff resources. It is anticipated the costs will be approximately £50,000.

4. OTHER IMPLICATIONS

The appointment of an experienced, successful and highly motivated operator is an integral aspect to the successful operation and management of the new AECC.

5. BACKGROUND/MAIN ISSUES

Grant Thornton LLP (GT), who are a leading organisation of independent advisory firms, were appointed by Aberdeen City Council (ACC) to carry out a financial due diligence exercise for the new AECC development. As part of this exercise GT carried out a review of the United Kingdom (UK) market for similar arena, exhibition and conference centre facilities.

ACC’s decision on the operating model for the AECC depends on a number of points. It is likely that control and ACC's ability to influence the AECC operation will be a key driver in determining whether ACC would like to continue with either the existing or new wholly owned subsidiary or whether it would like a third party to operate in which its ability to influence will be reduced.

However given the current financial performance of AECC Ltd, ACC may wish to reduce its exposure to the financial performance of the new facility and hence a third party operator could be the solution to meet this requirement, given that ACC will be required to make the annual lease repayments connected to the funding of the site.

It should be noted that GT, when reviewing the other facilities, suggested that the AECC Ltd performance to date has been limited by the condition and scope of the current asset to deliver events in a highly competitive market, and that the new facility will give the impetus to attract high calibre, and higher margin events.

The GT review identified three viable operating models, based on successfully operated UK venues, available to ACC for structuring the operation and management of the new AECC. The three options focus around whether the new AECC is operated and managed:-

A. through the existing arms length external organisation (ALEO) operator AECC Limited, a 100% owned subsidiary;

B. through the establishment of a new ALEO 100% owned subsidiary;

C. through a new private sector operator, appointed following a tender process, and supported by a formal contractual management agreement.

The three operating models for the new AECC considering advantages / benefits and disadvantages / costs associated is provided in the tables below.

	Advantages / Benefits	Disadvantages / Costs
Option A		
	• AECC Ltd have 30 years experience and expertise operating and managing an exhibition and conference centre in Aberdeen.	• Losses would be written off if ACC decided to take a different approach to the operation of the new facility.
	• ACC maintain 100% control of the operation of the facility and therefore have direct influence on the direction and the offer that the facility will be catering for.	• ACC currently provide a £1.30 million subsidy towards the operation and maintenance of the existing building. (It should be noted AECC Ltd's business plan shows the subsidy will reduce to zero prior to 2019).
	• Based on the latest accounts, AECC Ltd would not be liable to corporation tax if it continues to be loss making. This will depend on the form of subsidy made by ACC to ensure the operation reports a break-even position.	• ACC would be liable to provide subsidy to the company if business case revenue forecasts are not achieved.
	• AECC Ltd would be subject to corporation tax on any taxable profits	• ACC may consider AECC Ltd are not suitable to deliver the business case forecasts for the new facility.
	• If profit was generated losses from the current site would be carried forward to be offset against any future profits, assuming that it can be demonstrated that there has not been a change in trade under tax legislation.	• ACC would be responsible for the on-going lifecycle costs e.g. upgrading of ageing equipment.
	• If AECC Limited were retained as the operator there would be no exit costs for ACC. Exit costs include redundancy payments or additional costs arising from Transfer of Underlying Protection of Employment Regulations (TUPE) if staff were to be deployed elsewhere within the Council.	• A review of the existing management agreement is advised to determine if the on-going maintenance costs are the responsibility of ACC to be funded from the revenue budget or whether the responsibility lies with AECC Ltd from operating cash flow.
		• It is recommended that the new approach to operating the new facility has a reserve fund to meet lifecycle costs.

	Advantages / Benefits	Disadvantages / Costs
Option B		
	• The potential operator would be expected to have experience and expertise operating and managing an exhibition and conference centre.	• In the event that the existing operator, AECC Limited is not used going forward it is reasonable that the subsidiary may be wound up, resulting in discontinued operation and redundancy of all staff members. ACC would be liable for redundancy costs.
	• ACC maintain 100% control of the operation of the facility and therefore have direct influence on the direction and the offer that the facility will be catering for.	• ACC may incur significant exit costs but would depend on the terms and conditions of employment and the length of term for the staff who currently are employed by AECC Ltd.
	• The establishment of a new company would give the opportunity to bring new management into the organisation and this could potentially be the catalyst required to achieving improved financial results.	• ACC would be liable to provide subsidy to the company in the event base forecasts were not achieved.
	• As a new 100% ACC owned subsidiary, the new company will start from a standstill position meaning all existing debts are written off.	• The risk of this occurring would be low based on the financial due diligence review work performed on the forecasts and if a new AECC Ltd was established, there would be strong commitment to delivering the business plan forecasts.
	• If profit-making, these profits will be taxed and it is unlikely that profits could be offset from the potential historical tax losses attached to the existing AECC Ltd.	• ACC would be responsible for the on-going lifecycle costs e.g. upgrading of ageing equipment.
	• Another potential method to reduce the taxable profits is by ACC charging the operator a fee for the time spent by ACC officers managing the interface between ACC and the operating company.	• The details of the new management agreement to be put in place is key and should determine if the on-going maintenance costs are the responsibility of ACC to be funded from its revenue budget or whether the responsibility lies with AECC Ltd and is to be funded from operating cash flow.
	• This would need to be arm's length in order to attract full tax relief and would be subject to transfer pricing rules.	• It is recommended that the new approach to operating the new facility has a reserve fund to meet lifecycle costs.
	• ACC would seek further advice if this is a solution it would like to develop further.	• There would be set up costs for a new subsidiary company, including incorporation costs, legal costs and

		the administration time required by Council officers to complete this process. Detailed costs have not been identified to date.
		• There will also be costs to close down the existing AECC Ltd and complete the final set of accounts. This would require legal and accounting support, and may have an impact on the audit cost to ACC.

	Advantages / Benefits	Disadvantages / Costs
Option C		
	• The private sector presumably would have a broader breadth of expertise in the sector which may result in more efficient delivery and cost savings.	• ACC would not fully control the operation of the facility; operational control would ultimately sit with the private sector operator.
	• The private sector operator would have responsibility for any tax implications regarding the operational aspects of the facility.	• ACC would potentially influence matters through a seat on the board of the operating entity but its influence would be restricted when compared to the other options.
	• ACC would not be liable to provide any financial support to the project in the event that there was funding gap if the responsibility for the operating cash flow sat with the operator.	• In the event that the existing operator, AECC Limited is not used going forward it is reasonable that the subsidiary may be wound up, resulting in discontinued operation and redundancy of all staff members. ACC would be liable for redundancy costs.
	• With ultimate control sitting with the private sector operator ACC is unlikely to be responsible for any on-going costs related to the project, for example lifecycle costs, repairs, etc.	• ACC may incur significant exit costs but would depend on the terms and conditions of employment and the length of term for the staff who currently are employed by AECC Ltd.
		• However this would be dependent on the agreed arrangement and would preclude ACC from having access to any profits that may be made.
		• Procurement costs would be payable by ACC as a procurement exercise would be required to identify a private sector operator.
		• There is a risk that if a private sector operator had financial difficulties, the project is likely to fail, and ACC's investment would be at jeopardy. This would be covered by insurances and liability clauses.
		• There would be set up costs for a new operator, including incorporation costs, legal costs and the administration time required by Council officers to complete this process. Detailed costs have not been identified to date.

		• There will also be costs to close down the existing AECC Ltd and complete the final set of accounts. This would require legal and accounting support, and may have an impact on the audit cost to ACC.

Officers recommend that before a procurement to appoint a new operator is considered that ACC undertake a market testing exercise to determine the following:

- potential operators for the new AECC;
- the appetite and ability of operators with this field of expertise;
- any potential constraints specific to operating and management parameters;
- identify the best operating model for the new AECC which will maximise potential income generation and efficiency savings at the new venue.

The market testing exercise will be carried out as per ACC's Procurement Unit's process and will develop the following for the tender process to appoint a new operator:-

- the procurement strategy and brief;
- procurement specification;
- procurement documents;
- key success requirements;
- selection criteria.

It is anticipated to report the findings of the market testing exercise to Finance Policy and Resources Committee in September 2015.

6. IMPACT

The AECC development contributes significantly and directly to the achievement of five Single Outcome Agreement's National Outcomes:

1. We live in a Scotland that is the most attractive place for doing business in Europe;
2. We realise our full economic potential with more and better employment opportunities for our people;
3. We live in well-designed, sustainable places where we are able to access the amenities and services we need;
4. We value and enjoy our built and natural environment and enhance it for future generations;
5. We take pride in a strong, fair and inclusive national identity.

The AECC development also supports the Smarter City Vision Smarter Economy, Smarter Environment and Smarter Mobility objectives. The development will provide a key infrastructure project that supports the Energetica Corridor and assists in diversifying Aberdeen's economy and promoting the renewable energy industry.

The AECC is a key element of the business infrastructure needed to promote Aberdeen as the Energy capital of Europe. The provision to improve this asset is supported by the Strategic Infrastructure Plan, which enables it to develop and do an even better job.

No Equality Impact Assessment has been carried out in connection with this report.

7. MANAGEMENT OF RISK

The risks are outlined in section five in this report.

8. BACKGROUND PAPERS

Full Council (August 2010) - EPI/10/220
Full Council (November 2010) - EPI/10/264
Full Council (April 2012) - EPI/12/090
Full Council (October 2013) - EPI/13/365
Full Council (May 2014) – EPI/14/077
Full Council (March 2015) - CHI/14/045

9. REPORT AUTHORS DETAILS

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