

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	10 December 2025
EXEMPT	No - the report is public, however the two appendices contain exempt information as described in terms of Paragraphs 6, 8 and 9 of Schedule 7A of the Local Government (Scotland) Act 1973.
CONFIDENTIAL	No
REPORT TITLE	Alternative Delivery Model Outline Business Case
REPORT NUMBER	CORS/25/282
EXECUTIVE DIRECTOR	Andy MacDonald
CHIEF OFFICER	Craig Innes
REPORT AUTHOR	Craig Innes
TERMS OF REFERENCE	24.6 and 24.7

1. PURPOSE OF REPORT

- 1.1 To update the Council on the ongoing feasibility work into potential alternative funding and delivery model options for the Council's arts, culture, events, sport, leisure, museums, and galleries assets. This report reflects findings from recent soft market testing and stakeholder engagement. It positions the progression to Full Business Case (FBC) as a prudent, evidence-based next step, ensuring continued service quality and sustainability for Aberdeen's citizens.

2. RECOMMENDATIONS

It is recommended that the Council:

- 2.1 Notes the medium-term funding and delivery options identified through the Outline Business Case (OBC) process for the Alternative Delivery Model workstream, including consideration of asset condition, current subsidy levels, future investment requirements, and the inclusion of the Beach Ballroom within a wider asset approach.
- 2.2 Instructs the Chief Officer – Commercial and Procurement to progress the development of alternative funding and delivery models, which will include the option for proposals to be submitted directly from ALEO partners, for the Council's assets through to Full Business Case (FBC) stage, including commencement of a competitive procurement exercise.
- 2.3 Instructs the Chief Officer – Commercial and Procurement to present the findings of the Full Business case to Council during the final quarter of 2027.

3. BACKGROUND

- 3.1 The Council's TOM 1.2 Report established an Alternative Delivery Model (ADM) programme, managed through the Transformation Programme, to explore sustainable models for delivering sports, culture, and event services. The aim is to ensure partners can deliver services from Council assets without ongoing subsidy, in line with the Council's medium-term financial strategy.
- 3.2 Regular, well-attended, meetings with delivery partners - Sport Aberdeen, Aberdeen Sports Village, Aberdeen Performing Arts, and Bon Accord Care - have fostered strong, professional relationships. It is recognised that considering ADMs is a sensitive matter for partners, who have engaged professionally and constructively throughout. The recommendations in this report seek to explore future delivery options to ensure long-term sustainability and service delivery for citizens. At this stage, it is proposed current partners will have the option to participate in the next steps regarding options appraisals and final business cases, either as individual and/or collaborative bidders, in a competitive exercise, whilst avoiding conflicts of interest to and ensure impartiality and, independent analysis.

4. CURRENT SITUATION /ISSUES

- 4.1 The Council's freehold assets are central to Aberdeen's identity but face challenges due to age, condition, and suitability for modern service delivery.
- 4.2 Despite significant Council funding (over £48 million between 2019 and 2025), maintenance has been limited to basic repairs, with a growing backlog of essential works and an estimated £54 million lifecycle investment required over the next five years.
- 4.3 The scale of investment needed exceeds available Council resources, and further borrowing would increase revenue pressures.
- 4.4 Previous soft market testing indicated that commercial operators require access to a broader range of assets to achieve operational scale and are less interested in standalone facilities.
- 4.5 The Council contracts with ALEO partners through formal Service Level Agreements (SLA). To comply with Following the Public Pound Guidelines and Best Value principles the Council is required to review arrangements with all arms lengths organisations within defined timescales as contained with the SLAs. The current agreement with Aberdeen Performing Arts runs until 1st April 2027 and the current agreement with Sport Aberdeen is in place until 1st July 2026. To date these arrangements have rolled over periodically since inception without formal market testing.

5. BUSINESS CASE PROCESS AND NEXT STEPS

- 5.1 The business case process has followed HM Treasury guidance, progressing from Strategic Outline Case (SOC) to Outline Business Case (OBC), with

detailed evaluation of delivery models. Specialist consultants recommend a multi-lot procurement approach, encouraging participation from commercial operators, trusts, existing partners, and community organisations

- 5.2 Next steps include commissioning further specialist advice, updating asset condition surveys, obtaining tax and VAT advice, and developing a comprehensive procurement strategy. The Council will continue to engage with trade unions, staff groups, and stakeholders to ensure transparency.
- 5.3 Following detailed evaluation within the Outline Business Case, it is recommended that the Council proceed with a multi-lot procurement, reflecting approaches used by Derby City Council and Sheffield City Council for the procurement of arts and culture, and leisure services.
- 5.4 The procurement subject to further evaluation would be split into multiple lots to encourage participation from commercial operators, centralised trust structures, existing ALEO partners and community organisations:
 - **Lot A:** Leisure
 - **Lot B:** Leisure + Linx Ice Arena
 - **Lot C:** Leisure + Museums and Galleries
 - **Lot D:** Linx Ice Arena
 - **Lot E:** Arts and Culture
 - **Lot F:** Arts and Culture + P&J Live Arena
 - **Lot G:** P&J Live Arena
 - **Lot H:** Combination of All Lots
- 5.5 Incorporating the P&J Live Arena contract into the procurement lots, in anticipation of the current agreement expiry in 2029, presents the Council with an opportunity to achieve further efficiencies. Aligning the contract timelines allows the Council to maximise value and encourage participation from commercial operators that are likely to have overlapping interests.
- 5.6 The implementation plan and next steps associated with the business case output for the Alternative Delivery Model workstream includes:
 - Commission further specialist advice, including updated condition and suitability surveys of ACC freehold assets and development of proactive maintenance plans (where not available)
 - Obtain specialist tax and VAT advice to assess the full impact of OBC options on Council budgets
 - Undertake soft market testing for operators, with specific focus on P&J Live Arena post-contract expiry and its inclusion into procurement lots, building on initial market sounding results
 - Development of a comprehensive procurement strategy and business plan, incorporating further engagement with commercial operators, centralised trust models, exiting stakeholders and ALEO partners
 - Engagement with trade unions and elected members to ensure transparency throughout proposal development and procurement

- Establish a formal risk management framework and governance arrangements for the Alternative Delivery Model workstream
- Preparation of a transition and impact assessment to address implications of moving from existing delivery models
- Review of the Beachfront Masterplan and development of investment plans for Beachfront assets, including the Linx Ice Arena and Beach Ballroom, informed by the outcomes of the procurement and the Alternative Delivery Model workstream

6. MARKET TESTING AND STAKEHOLDER ENGAGEMENT

- 6.1 There are six reputable operators engaged in the process, with four submitting detailed responses. Strong market interest was demonstrated in bundled arts, culture, and leisure portfolios, with operators expressing willingness to invest capital and assume operational risk (potentially removing the need for Council subsidy). Operators confirmed commitment to protecting existing staff terms and conditions, ensuring accessibility and inclusivity, and maintaining leisure pricing at Council assets.

7. RATIONALE FOR MOVING TO FULL BUSINESS CASE (FBC)

7.1 Financial Sustainability

- 7.1.1 The Council faces significant fiscal pressures, including an anticipated £15.5 million budget gap for 2025/26 and a £54 million lifecycle investment requirement for existing assets over the next five years.
- 7.1.2 Current subsidy arrangements for ALEOs have totalled over £48 million since 2019, which is unsustainable in the medium term.
- 7.1.3 Moving to FBC allows the Council to fully explore models that could remove or significantly reduce subsidy requirements, while securing external capital investment and shared risk arrangements.

7.2 Market Appetite and Opportunity

- 7.2.1 Soft Market Testing demonstrated strong interest from credible operators in bundled asset packages, with several indicating willingness to invest substantial capital and assume operational risk.
- 7.2.2 Operators expressed readiness to engage in long-term partnerships, profit-sharing arrangements, and collaborative governance models, which could deliver efficiencies and modernisation beyond the Council's current capacity.

7.3 Service Modernisation and Community Benefit

- 7.3.1 Many Council owned facilities are ageing and require significant upgrades to meet modern standards and community needs.

- 7.3.2 Alternative delivery models offer opportunities for service innovation, improved asset utilisation, and enhanced customer experience, while maintaining accessibility and inclusion.
- 7.3.3 The FBC process will incorporate equality and human rights impact assessments to safeguard community interests and ensure continuity of service.

7.4 Risk Management and Governance

- 7.4.1 Transitioning to new delivery models involves operational, financial, and reputational risks. The FBC stage provides the framework to undertake detailed due diligence, develop a comprehensive risk management plan, and ensure compliance with procurement legislation and subsidy control requirements.

7.5 Respect for Existing Providers

- 7.5.1 The Council recognises and values the contributions of current partners - Sport Aberdeen, Aberdeen Sports Village, Aberdeen Performing Arts, and Bon Accord Care, whose professionalism and commitment have been integral to service delivery.
- 7.5.2 Moving to FBC is not a criticism of existing arrangements, but a necessary step to future-proof services in a challenging financial environment.
- 7.5.3 Existing providers will have the opportunity to participate in future procurement exercises on an equal footing, ensuring fairness and transparency.

7.6 Strategic Alignment

- 7.6.1 The FBC process aligns with the Council's Transformation Programme objectives and supports delivery of the Local Outcome Improvement Plan and Working in Partnership for Aberdeen policy commitments.
- 7.6.2 It ensures that decisions are consistent with best practice and informed by HM Treasury guidance on business case development.

8. FINANCIAL IMPLICATIONS

- 8.1 The funding and delivery options identified may lead to a reduction in existing Council subsidy levels, subject to the successful procurement and transition to alternative delivery models. There will be a requirement for investment in urgent and minor repairs and maintenance for the affected assets in the interim. Further financial implications will be detailed in the Full Business Case (FBC).

9. LEGAL IMPLICATIONS

- 9.1 The procurement of alternative funding and delivery models will need to comply with the Council's Standing Orders and relevant procurement legislation, including the Public Contracts (Scotland) Regulations 2015. Legal advice will be sought throughout the process to ensure that contractual, governance, and subsidy control requirements are met. Due diligence will be undertaken to ensure that any partnership or contractual arrangements protect the Council's interests and comply with statutory obligations, including those relating to asset transfer, employment and TUPE considerations, and public sector equality duties.

10. ENVIRONMENTAL IMPLICATIONS

- 10.1 Future investment in assets will consider energy efficiency and sustainability as part of the project appraisal process. Opportunities to improve the environmental performance of Council assets will be pursued where feasible.

11. RISK

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	To be established once Full Business Case is complete	Controls will be assessed once Full Business case is complete	To be assessed through the process to Full Business Case	To be Confirmed
Compliance	To be established once to Full Business Case is complete	Controls will be assessed once Full Business case is complete	To be assessed through the process to Full Business Case	To be Confirmed
Operational	To be established once the Full Business Case is complete	Controls will be assessed once Full Business case is complete	To be assessed through the process to Full Business Case	To be confirmed

Financial	To be established once the Full Business Case is complete	Controls will be assessed once Full Business case is complete	To be assessed through the process to Full Business Case	To be Confirmed
Reputational	To be established once the Full Business Case is complete	Controls will be assessed once Full Business case is complete	To be assessed through the process to Full Business Case	To be Confirmed
Environment / Climate	To be established once the Full Business case is complete	Controls will be assessed once Full Business case is complete	To be assessed through the process to Full Business Case	To be Confirmed

Risk mitigation measures during the processes to Full Business Case will include robust market engagement, detailed due diligence, legal review, regular project monitoring, and clear communication with stakeholders.

12. OUTCOMES

<u>COUNCIL DELIVERY PLAN 2025-26</u>	
	Impact of Report
Aberdeen City Council Policy Statement <u>Working in Partnership for Aberdeen</u>	The progression of the Full Business Case will have critical success factors aligned to the comprehensive delivery of the Aberdeen City Council Policy Statement.
<u>Local Outcome Improvement Plan</u>	
Prosperous Economy Stretch Outcomes	Each of the Stretch Outcomes will be embedded within the Full Business Case process.
Prosperous People Stretch Outcomes	
Prosperous Place Stretch Outcomes	
Community Empowerment Stretch Outcomes	
Regional and City Strategies	

--	--

13. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	An Equality and Human Rights Impact Assessment (EHRIA) will be undertaken as part of the Full Business Case development to ensure that any changes to delivery models do not adversely impact protected groups and continue to promote accessibility and inclusion
Data Protection Impact Assessment	
Other	

14. BACKGROUND PAPERS

14.1 None

15. APPENDICES

Outline Business Case (OBC) for the ACV Alternative Delivery Model
workstream
Soft Market Testing (SMT) summary reports

16. REPORT AUTHOR CONTACT DETAILS

Name	Craig Innes
Title	Chief Officer, Commercial and Procurement
Email Address	cinnes@aberdeencity.gov.uk