



SUPPLEMENTARY BUSINESS PAPER

(Items 20 and 21)

GENERAL MEETING

Wednesday, 17 April, 2013

at 6:30 PM



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SUPPLEMENTARY ITEMS

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20 MANAGEMENT OF HORNSBY'S AQUATIC CENTRES

EXECUTIVE SUMMARY

- Council currently operates aquatic centres at Epping and Galston and a third is currently being built in Hornsby for approximately \$26M. Operation of the Epping and Galston centres were subsidised by approximately \$370,000 and \$270,000 respectively in 2011/12.
- It is reasonable for Council to consider the future management of these facilities and whether it wants to market test various management options to ensure the facilities are delivered as efficiently and effectively as possible.
- Market testing is best achieved through a competitive tender process.
- There are basically three management models available to Council, each of which has strengths and weaknesses that are outlined in this Report.
 - In-house management
 - Outsourcing to a commercial/not-for-profit Operator
 - Fee for service model.
- It is recommended that any tender process allow for submissions in relation to each of the management options.
- It is important to set targets and performance standards in the tender documentation to ensure the effective and efficient management and operation of these significant recreation assets does not override the social and health benefits these facilities offer to the community.

RECOMMENDATION

THAT Council:

1. Confirm its preference to market test through a tender process the operation of the Hornsby, Epping and Galston aquatic centres.
2. Authorise an in-house submission to the tender process.
3. Adopt the key considerations presented in Deputy General Manager's Report IR11/13 as the basis for the preparation of tender documentation.
4. Receive a copy of the tender documentation including details of the evaluation panel prior to advertising the documents.

PURPOSE

The purpose of this Report is to confirm Council's approach to the operation of Hornsby's aquatic centres.

BACKGROUND

The new Hornsby Aquatic Centre is due to be open to the public early in 2014 at a cost of about \$26M. In addition Council operates other aquatic facilities at Epping and Galston. Currently Council manages the Epping and Galston Aquatic Centres in-house. Last year the operational expenditures for these centres were subsidised at approximately \$370,000 and \$250,000 respectively.

The opportunity for Hornsby Aquatic Centre to be managed by an external party requires sufficient lead time to enable the Operator to staff and open the facility to coincide with the end of construction. It is reasonable now for Council to formally consider whether the management of these aquatic facilities should be outsourced or managed in-house.

There are a variety of management models used by other councils. Many local government authorities such as Sutherland, Blacktown, Ryde, Warringah and Leichhardt have invested in their aquatic facilities but have retained in-house management. Other councils, notably City of Sydney, Hurstville, Canada Bay, Baulkham Hills, Hawkesbury and Lane Cove have outsourced their centres. Some councils such as Rockdale and Botany have outsourced the learn-to-swim operation and coaching, but retained control of the remaining leisure components and responsibilities in their centres. Canterbury Council has reportedly recently signed an agreement with the YMCA to act as a consultant and identify opportunities to improve the business and train Council staff to implement the recommended outcomes.

DISCUSSION

Any decision to implement changes to the management of Council's aquatic centres is likely to be influenced by decisions that balance the effective and efficient management and operation of these significant recreation assets, while optimising the social and health benefits to the community.

Management Options

There are basically three typical governance/management models for Hornsby's aquatic centres. They include:

- In-house management
- Outsourcing to a commercial/not-for-profit Operator
- Fee for service model.

Under an in-house management arrangement Council assumes full responsibility for the operations of the facility. It becomes the employer of all staff, handling all the HR aspects and has the responsibility for the financial performance of the facility.

In simple terms the outsourcing model involves engaging a management company to operate a centre for a guaranteed price and/or share of the profit. Outsourcing can be limited to certain value-added programs such as learn-to-swim and coaching with Council retaining life guarding and asset management responsibilities.

The fee for service model involves engaging a management company to provide all management and staff requirements and to deliver administration and marketing requirements to operate the centre. Under this arrangement Council retains all income, is responsible for all expenditure and pays a management fee to an external contractor for their services and resources.

The strengths and weaknesses of each of the above management models are summarised below in Table 1.

Table 1 – Management Model Strength and Weaknesses

| Management Model | Strengths | Weaknesses |
|---------------------------|--|---|
| In House Management Model | <ul style="list-style-type: none"> • Full recognition of Council ownership through branding • Full control over program and product quality, pricing, promotions and marketing • Social and community benefit objectives can be incorporated into day to day operation • Retention of all revenue and full cost control over all costs • Immediate attention to matters relating to the facility maintenance compared with remote management by external head office personnel • Direct management of maintenance matters and improved long term asset lifecycle outcomes • Greater influence over risk management and compliance issues • No profit share/management fee • More responsive to customer feedback/complaints | <ul style="list-style-type: none"> • Can be subject to higher wages and salary costs • Potential lack of facility management expertise, internally within Council • Direct responsibility for human resources and industrial relation matters • Effective in-house management is time consuming when ensuring quality outcomes, compared to monthly contract management meetings • Council assumes all financial and safety risks associated with operating facilities |

| Management Model | Strengths | Weaknesses |
|--------------------------------------|---|--|
| Outsourced Contract Management Model | <ul style="list-style-type: none"> • Minimises financial risk to Council -performance guarantee • Companies have extensive support services (marketing, management etc) specific to the recreation and fitness industries. • Lower wage and salary expenses • Sales and marketing systems • Ability to provide capital investment in the facility • Minimises industrial relation issues for Council | <ul style="list-style-type: none"> • Values of external body may not be aligned with Council • Profit motives key objective with less emphasis on equity and social justice • Council can experience a loss of influence over programming opportunities particularly for disadvantaged groups • Lack of recognition of Council brand and ownership of facility • Loss of overall control of how the centre operates • Councils may have difficulty in influencing customer service standards • Less responsive to customer issues – issues may not be transmitted to Council for some time • Profits shared with management group • Asset maintenance may not always be delivered to the satisfaction of Council • Can be difficult to influence dispute resolution between contractor and customers • Lack of control over staff appointments • Hidden charges, lack of transparency in reporting |
| Fee for Service Management Model | <ul style="list-style-type: none"> • Demonstrates Council ownership of the centre – community identifies the service delivery as part of Council's Community wide leisure strategy • Some financial benefits as a result of wage savings and economies of scale in terms of support services • Provides clarity around financial performance • Reduces some of the liability for operating centres • Support services specific to the recreation and fitness industries. | <ul style="list-style-type: none"> • Financial risk is greater - no commitment to guarantee operating result • Council has limited control over service standards • No real incentive to deliver high levels of financial or service performance • Loss of control over how the centre operates • Difficulty in influencing customer service standards |

Suitable Environments for Each Model

There are certain environments that lend themselves to the implementation of the three management models detailed above. These are summarised below.

General Conditions that suit an In-house Operation

- Council is seeking greater control over delivery of programs and general operation of the centre
- There is no financial history available to the Centre and Council wants to understand the business in more detail
- Council is philosophically committed to taking operation of the centres in-house for the long term
- There are sufficient resources within Council to manage compliance and administration requirements of the centre
- Council has expertise in operating facilities or believes it can obtain that expertise
- Council is seeking increased brand awareness and community ownership of the facility
- Council is prepared to accept the financial risks associated with operating facilities
- Council's industrial environment will assist with the negotiation of a favourable wage rate.

General Conditions that suit an Outsourced Management Model

- Council is very clear on the outcomes it expects from the centre: can articulate this in the tender specification and has the appropriate monitoring and resource systems to ensure outcomes are achieved
- There is no community push for the facility to be managed in-house and Council is satisfied with the current level of community ownership of other outsourced facilities
- Where there is a clear understanding of the current financial performance of the centre and Council is satisfied it is getting value for money
- A competitive tendering environment exists that will deliver an expected or more favourable financial guarantee to Council.

General Conditions that suit a Fee for Service Operation

- A new facility is being opened and future financial performance is unknown
- Council is unclear of the management model it would like to implement and wants a better understanding of the operating environment and financial implications prior to making a choice
- Council does not believe the previous financial performance is a true reflection of potential and has limited confidence that the competitive tendering environment will deliver an accurate reflection of the centre's environment

Tender Process

The remainder of this Report examines the key considerations that Council should make if it chose to test the market through tenders from suitably experienced and reputable management groups. A tender process would provide Council with a detailed consideration by operators having regard to the requirements set by Council.

Key Considerations for Tender Process

Irrespective of the chosen management model the above considerations suggest that Council needs to explicitly state its intentions and expectations. Some of the areas are set out below.

a) Invitations to Tender

It is appropriate that the private sector and not-for-profit organisations be approached. The tender would also include the possibility of rental/profit share solutions as well as fee for service proposals. It is also considered reasonable that Council be allowed to submit an in-house bid to any tender process.

b) Aquatic Centres included in the Tender

Council has indicated in briefings related to this subject that it wants to test the market for all three Council operated aquatic facilities: Hornsby Aquatic Centre, Epping Aquatic Centre and the Galston Aquatic Centre.

c) Special Arrangements for Epping Aquatic Centre

The Epping Aquatic Centre is more than 50 years old and arguably is reaching the end of its useful life. Some might argue that it is not fit for its current purpose or that at the very least it is outdated and difficult to access. Given these considerations it seems reasonable to provide an opportunity for a tenderer to replace the centre albeit possibly in a different form and location.

It is also reasonable to provide tenderers some discretion in opening hours for this facility e.g. the possibility of closing over winter when patronage is low. The remaining centres would be required to remain open all year round.

d) Lease Periods

It is reasonable to set short-term lease periods for new and well maintained facilities. Where there is an opportunity for or a likelihood that an investment in a facility will be required then a longer-term lease may be required.

In this respect and having regard to other similar circumstances it is recommended that Council adopt short-term lease periods for the Hornsby Aquatic Centre and Galston Aquatic Centre. These could be three-year leases with options to extend for a further two plus one-year periods subject to performance.

Given the current state of the Epping Aquatic Centre it is recommended that Council specify a minimum five-year lease, but be prepared to negotiate given its declining condition and have provision for closing the centre if repair costs exceed a predetermined level.

e) Fees and Charges

The fees and charges for the 2013/14 financial year have been prepared and will shortly be exhibited for public comment. It is reasonable that these fees be adopted for the first year of any future operation of the aquatic centres. However, given that financial performance is an expressed consideration of Council it is prudent for the tendering process to include some flexibility in the establishment of fees and charges for subsequent years.

f) Naming and Branding Rights

Council has indicated in briefings that it has a preference for controlling the branding associated with the Hornsby Aquatic Centre. It does not have a preference for controlling the naming and branding rights for the other centres.

g) Performance Targets and Standards

Performance targets and standards are critical to addressing the weaknesses associated with outsourcing models. These should include, but are not limited to:

- Financial performance
- Injury management
- Safety standards
- Staff qualifications and experience
- Pool down time
- Increases in membership
- Increases in attendance
- Marketing
- Customer complaints
- Satisfaction with services and facilities
- Availability of facilities to marginalised/disadvantaged groups
- Availability to other groups such as seniors and schools
- Utility service consumption
- Water Quality
- Preventative and reactive maintenance requirements and corrective action
- Opening hours
- Compliance with facility service plan
- WHS management systems
- Cleaning
- Waste management.

h) Activities Guaranteed to the Public

The following core activities would be guaranteed to the public.

- Learn-to-swim
- Enable swimming clubs to expand their activities and membership
- General community participation
- Programs to increase use by under represented groups and increase usage by these groups
- Existing health and wellness services
- Community meeting space.

i) Water Space Available to the General Public

It is recommended the following water space be made available to the general public.

Table 2 – Water space availability

| Facility | Availability |
|--|---|
| Outdoor 50 m Pool (Hornsby-HAC and Epping- EAC- Centres) | HAC - Minimum 4 lanes open at all times. Exemptions may apply during school carnivals. EAC - Minimum 2 lanes open at all times. Exemptions may apply during school carnivals |
| Indoor 25m Pool (Galston Aquatic Centre) | Available to public outside programmed LTS and squad classes. Exemptions may apply during school swimming carnivals. |
| Learn-to Swim (LTS) Pool | Available to public outside programmed LTS classes. |
| Leisure pools | Available to public at all times |

j) Responsibilities for Preventative Break Down Maintenance

It is proposed that Operators be generally responsible for preventative maintenance and that Council predominantly assume responsibility for the replacement of assets.

BUDGET

There are no budgetary implications associated with this report, but proceeding to a tender would entail expenditure in the order of \$130,000-\$150,000. There would also be some additional costs associated with displacement of staff if a commercial operator or not-for-profit company was successful in managing one or more of Council's current aquatic facilities.

POLICY

There are no policy implications associated with this Report.

CONCLUSION

It is appropriate for Council to provide good value in service delivery for residents and ratepayers. Council services with a revenue stream, such as aquatic centres, have been demonstrated to have

the potential to be successfully provided by the private or not-for-profit sectors on behalf of local government as long as performance measures, safeguards around community service obligations and care for the condition of publicly owned assets are in place.

RESPONSIBLE OFFICER

The officer responsible for the preparation of this Report is Craig Clendinning, Project Coordinator Design and Construction Branch- who can be contacted on 9847 6701.

ROBERT STEPHENS
Deputy General Manager
Infrastructure and Recreation Division

Attachments:

There are no attachments for this report.

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21 MAYOR'S NOTES FROM 1 TO 31 MARCH 2013

Saturday 2 March 2013 - The Deputy Mayor, on the Mayor's behalf, attended the 80th Birthday Celebrations for Glenorie Community Hall.

Thursday 7 March 2013 - The Mayor and Councillors attended a Hornsby Quarry Site Inspection with Members of the Joint Standing Committee on the Office of the Valuer General.

Friday 8 March 2013 - The Mayor and Councillors attended a Councillors Strategic Weekend.

Tuesday 12 March 2013 - The Mayor was the Guest Speaker at the Rotary Club of Galston's monthly meeting.

Wednesday 13 March 2013 - The Mayor attended a lunch with The Hon. John Ajaka MLC (Transport Secretary) at Parliament House.

Thursday 14 March 2013 - The Mayor attended the official opening of the Paradise Supermarket in Hornsby.

Thursday 14 March 2013 - The Mayor attended the Beecroft Bowling and Recreation Club Centenary Celebration Dinner.

Sunday 17 March 2013 - The Deputy Mayor, on the Mayor's behalf, and Cr Berman officiated at the Hornsby One World and Healthy Living Festival in Hornsby Mall.

Tuesday 19 March 2013 - The Mayor attended the Indian Seniors Group Seniors Week Activities at Pennant Hills Learning and Leisure Centre.

Tuesday 19 March 2013 - The Mayor hosted a visit by Chinese Delegates from Xian City, China.

Saturday 23 March 2013 - The Mayor attended a Ku-ring-gai Netball Association Netball Game.

Monday 25 March 2013 - The Mayor attended the Cherrybrook Guides Sausage Sizzle at Cherrybrook Scout Hall.

Monday 25 March 2013 - The Deputy Mayor, on the Mayor's behalf, attended the Beecroft Cheltenham Civic Trust AGM at the Cheltenham Recreation Club.

Tuesday 26 March 2013 - The Mayor hosted three Citizenship Ceremonies in the Council Chambers.

Note: These are the functions that the Mayor, or his representative, has attended in addition to the normal Council Meetings, Workshops, Mayoral Interviews and other Council Committee Meetings.

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