



Territorial Authority Sport and Recreation Facilities Decision Guide

MARCH 2013



The Guide

This guide was developed by **Sport NZ** to assist territorial authorities (TAs) who are considering their procurement choices with respect to their sport and recreation facilities (primarily swimming pools and recreation centres). The guide can be used to help develop “**good practice**” in selecting, reviewing and implementing appropriate choices for sport and recreation facility management.

The guide will be particularly helpful for TAs, including elected members and officers, who are considering or are undertaking a review of their service delivery options. It may also be of value to professional advisers to TAs and to private providers who are offering facility management services.

In preparing this guide, Sport NZ has not sought to advocate for any one procurement option over another. The guide seeks to provide a decision-making framework for territorial authorities so that the decisions they make are well researched and well documented. This will lead to increased asset utilisation (**access and participation**) with more kids and adults engaged in sport and recreation.

As a background to this guide, independent, objective research was carried out by Fay Freeman of Freeman Associates Limited. The report which was produced from this research provides in-depth information which can be read in conjunction with the guide. This report and the decision guide may be viewed on-line at the Sport NZ Knowledge Library.

Information from the Standards New Zealand Guide to Local Government Service Delivery Options¹ also informed the research. Standards New Zealand highlights the complexity of risk management and urges TAs to have regard to relevant best practice in these issues. A list of essential reading is included at the end of this guide.

Sport NZ's role is to lead, invest in and enable the sector to achieve their outcomes and priorities. In particular, Sport NZ has prepared this guide to align with the following drivers:

LEADING: To provide a clear sense of direction, to challenge the sector to keep lifting its performance, to recognise and share best practice, to celebrate success, to bring the sector together, and to provide evidence and advocacy to point the way forward.

ENABLING: To build capability of our partners in areas such as governance and management systems, information technology services, event management, facilities, commercialisation, human resources, research and monitoring, and good practice.

Acknowledgement

The generosity of all those people who contributed to the research which informed the report and guide is warmly acknowledged. This information contributed substantially to the body of knowledge on which the research was based and added considerable value and objectivity to the research results.

DISCLAIMER

Sport NZ and any other individual or organisation involved in the preparation of this guide are not liable for any loss, injury or damage arising to any organisation or individual from the use of the guide. The information is presented for the purpose of illustration only and is in no way a statement of how particular issues or decisions must be dealt with.

Your use of this guide constitutes acceptance of the contents of this disclaimer.

¹ SNZ HB 9213:2003



Contents

Introduction	4
Legal and Policy Framework	5
■ Local Government Legislation	5
■ Sport and Recreation Strategy.....	5
Contractual and Operational Framework.....	6
■ Contract for Service	6
■ Cost Structures and Revenue Potential	6
■ Quality Outcomes	6
■ Managing Risk.....	6
■ Health and Safety Standards	7
■ Hierarchy, Consolidation and Rationalisation.....	7
■ Outsourced Service Delivery	7
Before making a procurement choice we need to consider	8
Before deciding to change we need to	8
What are the procurement choices for facility management	9
Regardless of which option we choose.....	10
Characteristics Common to All Models	11
In-house Facility Management Model	12
Stand Alone Business Unit (SABU) Model	13
Council Controlled Organisation (CCO) Model.....	14
Contracting (Outsourcing) to a Private Provider Model.....	15
Contracting (Outsourcing) to a Community Trust or Committee Model..	16
Mixed Management Model	17
A “Hands-off” Model	18
TA-School Partnership Model	19
Clustering of TAs (or Shared Services) Model.....	20
TA Franchise or Licence to Occupy Model	21
Private Sector Partnership Model.....	22
What is important and which model will deliver on the importance factor?	23-24
Is there a match between what is important to us and our current delivery model?	25
Essential Reading	26



Introduction

Sport and recreation provision is often the cornerstone of community life and is shaped by community wants and needs. Sport and recreation facilities are core services of territorial authorities (TAs) but their delivery can be through a mix of models.

Sport and recreation also makes a significant contribution to the national and regional economy. The market value of sport and recreation to the New Zealand economy in 2008/2009 is estimated to be **\$5.2 billion or 2.8% of GDP** and regional economic values range from **1.9% to 4.2% of regional domestic product²**.

In 2008/2009, TAs spent \$345 million on **new** sport and recreation facilities. The estimated value of fixed assets for local government recreation and sport in 2008/2009 was **\$7.09 billion**, and the operating expenditure on recreation and sport for this same year was **\$613.6 million**.

TAs in New Zealand have a history of investing in sport and recreation facilities in their communities to achieve community outcomes. Individual TAs have tended to make decisions about how best to structure the management of these facilities based on varying levels of knowledge and differing levels of analysis. Increasingly, TAs have asked Sport NZ for information on sport and recreation facility management choices.

Consequently, Sport NZ took a lead in commissioning research into the full range of sport and recreation facility management choices available to TAs.

The aim is to produce a comprehensive and independent view on the range of choices available and provide guidance on the decision-making process to ensure wise investment in sport and recreation facilities.

This guide, which is based on that research, provides an overview of the range of management choices, both current and potential. It outlines the key characteristics of each of the different models and the advantages and disadvantages of each, drawn from research conducted with a range of New Zealand TAs and private providers, and relevant Australian and United Kingdom research.

In New Zealand there are currently **six main management models** for TA sport and recreation facilities:

- In-house management.
- A Council Controlled Organisation (CCO).
- Contracted or leased to a private provider.
- Contracted or leased to a community trust or committee.
- A mixed management model, where TAs choose to have a combination of any or all of the above models.
- A "hands-off" model.

There is **no ideal model** for management of sport and recreation facilities. Quality facility management resulting in high levels of community access and participation depends on the qualities and skills of those involved in management, marketing and service delivery.

The external contracting environment in New Zealand is limited because of size, although the market is developing. There is one large private contractor providing services across New Zealand, one large not-for-profit contractor providing services primarily in Auckland, and a number of small private operators managing TA sport and recreation facilities in localised situations.

In addition to the current models, the number of TA-school partnerships is growing. TAs may consider a potential alternative model of clustering with other TAs to create scale and increase their options or the efficiency of an in-house model, partnering with a school or partnering with the private sector (contract, lease, licence, franchise or land use).

There is potential for an existing charitable trust to expand, or a new trust to emerge and contract on a New Zealand-wide basis; or for an existing TA to develop a franchise or licencing model to provide private sector capability within the public sector.

Communities throughout New Zealand differ, so the requirements for facility management are also likely to differ. What suits one community or one TA might not suit another.

For this reason, the guide identifies a range of options available to TAs and the potential advantages and disadvantages of each. TAs will need to reach their own conclusions to suit their own requirements, but may use this guide as a resource to make better decisions based on considered analysis.



² *The Economic and Social Value of Sport and Recreation to New Zealand*, (September 2011), Research Report No. 322, Lincoln University

Legal and Policy Framework

Local Government Legislation

The Local Government Act 2002 and the Local Government Act 2002 Amendment Bill 2012 provide the legal framework within which TAs work.

TAs are required to “**meet the current and future needs of communities for good quality infrastructure, local public services and performance of regulatory functions**”.

TAs also need to ensure they are dealing with matters in a way “**which is most cost-effective for households and businesses**”.

Regardless of the sport and recreation facilities management model, every TA should ensure they have the right policy and operational frameworks in place to ensure effective and efficient service delivery.

Sport and Recreation Strategy

Development of a sport and recreation strategy, aligned with the TA long-term and annual plans, is essential for defining the TA's vision, mission, approach, outcomes, focus and priorities for sport and recreation.

A sport and recreation strategy creates an opportunity to clearly articulate the social, health and economic benefits of sport and recreation to the community. The strategy should define current service provision and demand, demography and future service demand projections, definition of required outputs of service and a service funding policy.

A sport and recreation strategy encourages and supports long-term planning and engagement with the community to determine focus and priorities, rather than reactive responses to perceived or real unmet needs.

A sport and recreation strategy may include objectives to:

- Increase the awareness of the value of sport and recreation and the availability of opportunities to participate.
- Encourage and support more young people to participate in sport and recreation.
- Address and remove the barriers which prevent people from participating in sport and recreation.
- Increase and improve the quality of accessible facilities and opportunities to participate in sport and recreation.
- Support partnerships which increase opportunities for affordable access to sport and recreation facilities.
- Support community sport organisations to be capable and sustainable so they can deliver quality sport to their communities.

Sport and recreation facility management plans, aligned with the sport and recreation strategy, will clearly articulate the TA's intentions for its facilities and should include priorities for facility provision, and renewals and maintenance, as well as the overall direction and facility management choices.

The facilities management plan should be detailed in terms of costs, priority groups (children, youth, elderly, disabled, disadvantaged groups), opening times, maintenance, and community and commercial opportunities.



Contractual and Operational Framework

Contract for Service

Regardless of the management option chosen, a **robust contract** is the cornerstone of successful facility management. A contract is the key document for ensuring quality of service delivery, efficiency of the operations, and long-term protection of valuable community assets.

A contract **reduces risk** for the TA as it spells out the terms and conditions under which the contractor (**or in-house manager**) will operate, including expectations around the financial return to the TA, profit sharing, or the cost to the TA where the facility is unable to produce a profit.

The contract also clearly **defines responsibilities** for maintenance of the facilities, including cyclical and capital maintenance, cleanliness, programming to meet social objectives and community expectations, and reporting timeframes against key performance indicators.

The length of the contract for an outsourced model is also important. Standards New Zealand outlines a number of issues that should be taken into account when considering the duration of a contract arrangement.³

- Will the duration of the contract encourage or discourage investment in the capital asset, fixtures or fittings?
- Are the service standards required likely to change during the term of the contract and can the standards be amended?
- Will a shorter/longer duration contract encourage or discourage other providers from competing for delivery now or in the future?
- Should the duration of the contract be extendable? Under what circumstances?
- How will the duration of the contract affect the method of funding the service, now and in the future?
- Is there is risk of loss of “institutional knowledge” for long-term arrangements or provider “capture” of the TA?
- Will it be possible to address poor provider performance?

Cost Structures and Revenue Potential

TAs must be fully aware of the cost structures for their sport and recreation facilities (accurate overhead costs may only become evident under an outsourced model).

Revenue potential is strongly linked with marketing capability. Not all TAs have sufficient specialist marketing capability (or budget) to focus on maximising use of their sport and recreation facilities.

Understanding cost structures and revenue potential will assist TAs to make decisions on an appropriate management model from a position of strength rather than a position of weakness, particularly in relation to an external contractor.

It may also strengthen the ability of an in-house manager to ensure they have the resources to employ or engage an appropriate level of expertise to manage and market their facilities.

Quality Outcomes

The quality of the contract, the quality of the relationship and the quality of the service are of equal importance for delivering a good outcome for the TA and the community. None of these contributors can stand alone, regardless of which management model is chosen.

Poorly constructed contracts may lead to misunderstandings or disputes around service delivery, maintenance, cost or revenue expectations, and reporting. The quality of the relationship will help to avoid disputes or enable differences that arise to be easily resolved without resorting to legal redress.

If the quality of the services meets or exceeds customer expectations, this will be a strong factor in building and sustaining positive relationships, and meeting contractual obligations.

Managing Risk

Standards New Zealand outlines in detail the importance of risk management and also the allocation of risk, which is apportioned differently for each management choice. The general principle is to ensure that risk is placed with the party best able to manage it.⁴

The way this occurs will largely “be determined by the arrangement agreed between the TA, if it is not to deliver the service itself, and the party with responsibility for service delivery.”⁵

Risk may be expressed in qualitative terms of exposure to loss or injury, or in quantitative terms of probability and consequence. In particular, “risk” and “opportunity” can be expressed as opposite and largely interchangeable terms. The pursuit of opportunity creates risks, while prudent management of risk generally results in successful outcomes.⁶

Standards New Zealand highlights the complexity of risk management and urges TAs to have regard to the relevant best practice on these issues, with reference to the following documents:

³ SNZ HB 9213:2003, p33

⁴ Ibid, p23-26

⁵ Ibid, p23

⁶ Ibid, p24

Contractual and Operational Framework

- (a) SNZ HB 4360:2000 *Risk management for local government*.
- (b) AS/NZS 4360:1999 *Risk management*.
- (c) SAA HB 240:2000 *Guidelines for managing risk in outsourcing utilizing the AS/NZS 4360 process*.

In-house provision means the TA has full control to minimise its risk (but will be exposed to risk if it does not understand its cost structures and revenue potential). Outsourcing can reduce risk (but poorly written contracts and leases often result in the TA retaining risk). Developing partnerships can result in sharing or transferring risk. Risk may also include loss of the TA brand and image on its own facilities.

Health and Safety Standards

Regardless of who operates TA sport and recreation facilities, the TA has a responsibility for ensuring its facilities meet appropriate health and safety standards. Swimming pools that are PoolSafe accredited will meet the required standards for safe public access (a TA can delegate responsibility for management but cannot abdicate its responsibilities as the owner of the asset).

The basics of a swimming pool are clean water, clean toilet and change facilities, and sufficient supervision to ensure the safety of pool users. If there is insufficient skill or knowledge, or insufficient resource to ensure this occurs, a TA is exposing itself to inappropriate risk.

Hierarchy, Consolidation and Rationalisation

Establishing a hierarchy of sport and recreation facilities, and considering consolidation and rationalisation, is an appropriate response where a TA has a number of facilities, some or all of which are ageing and in need of renewal or investment.

A hierarchy can be allocated to the quality and size of a facility to determine an appropriate level of future investment. The hierarchy will likely be determined by location, with larger-scale facilities provided to support larger, more populous communities, and small-scale, basic facilities provided in local areas.

Indicators that might lead to a decision to consolidate or rationalise might include:⁷

- The current state of existing facilities e.g. ageing and declining.
- Facility duplication with high cost implications and environmental impact e.g. water usage.
- Communities demanding modern, high quality facilities.



- The TA has limited or no capacity to adequately support the number of facilities it is responsible for in their current condition.
- A declining population to support facilities in some areas.
- Broader issues, including the economic downturn and population changes.
- Lack of asset management capability and planning.

Sport and recreation facilities that are ageing, are of low amenity value, are unattractive, or are poorly located in relation to the community will over time require reinvestment that may not resolve the issues identified e.g. location. It may be better to consolidate or rationalise so that investment can be made in better quality facilities that the community will value and use.

Outsourced Service Delivery

Standards New Zealand outlines a number of considerations to take into account in planning delivery of services other than by the TA:⁸

- Are there external parties who have the required capability and capacity to deliver the service?
- Is there appropriate expertise within the TA to act as a “smart purchaser” if the service is to be outsourced?
- Will outsourcing over a lengthy period result in provider “capture” of the TA?
- Is a commitment to any method of delivery reversible in the future?
- Is there flexibility to amend service standards, scope of services and cost structures?

TAs should be clear about the **facility management choices**, including what the management model is expected to deliver, and which model the TA believes can best achieve the outcomes they aspire to (aligned with the sport and recreation facilities strategy).

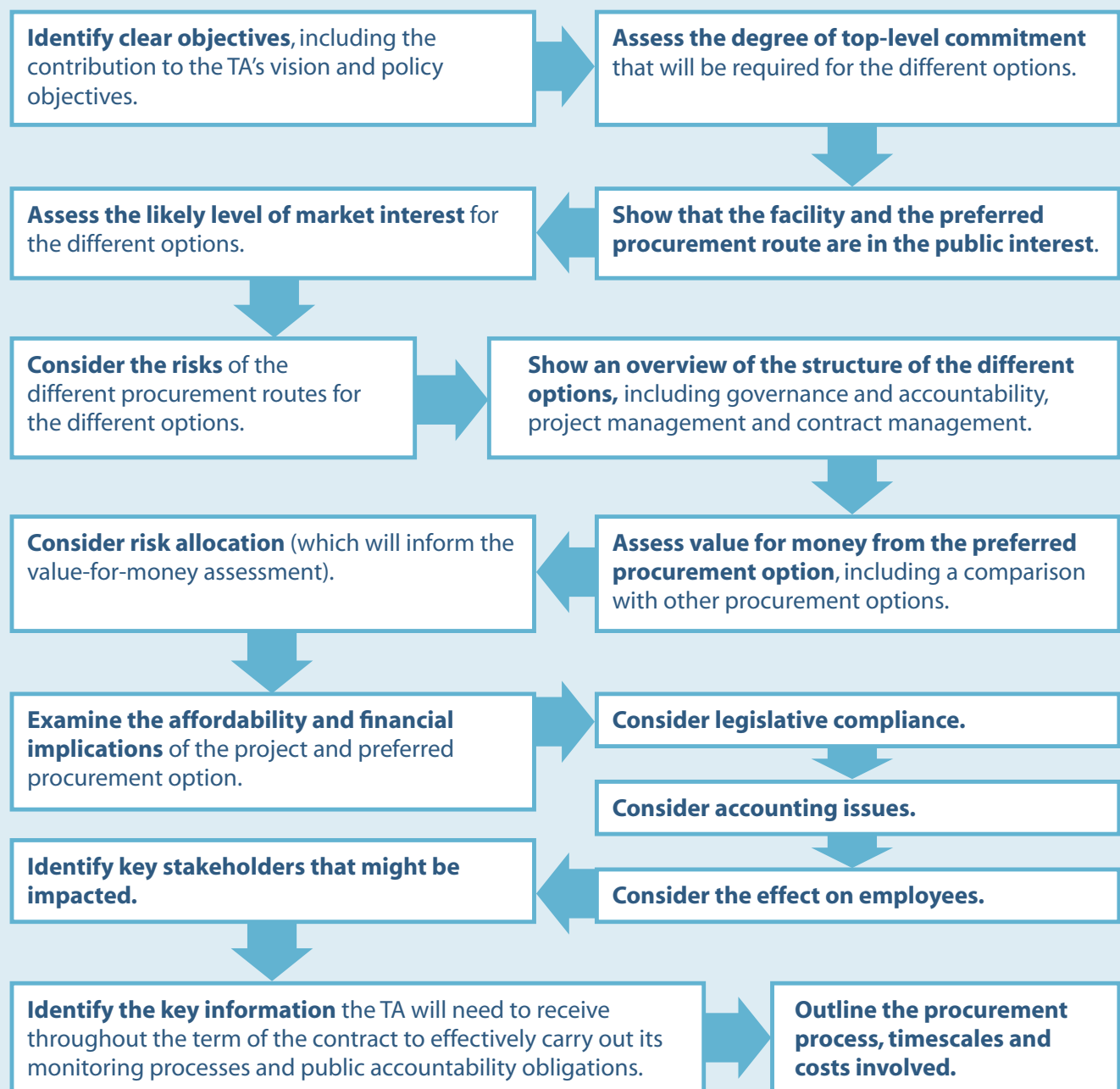
⁷ *Guidelines for the Sustainable Management of Community Recreation Facilities*, (September 2012), SGL Consulting Group

⁸ SNZ HB 9213:2003

Before making a procurement choice we need to consider:



Before deciding to change we need to:



What are the procurement choices for facility management



¹Stand Alone Business Unit

Regardless of which option we choose:



Characteristics Common to All Models

A number of characteristics and requirements are common to both in-house service delivery and outsourcing of facility management:

- The **quality and skills** of facility or business unit management, **strong and trusting relationships**, **understanding of costs and revenue potential**, and an ability to **effectively market the facilities to maximise access and participation** all contribute to successful facility management.
- **The TA owns the assets** and is also responsible for provision for depreciation and asset renewal, maintenance or replacement for the life of the facility (30-50 years).
- The TA must ensure **good asset management planning** in identifying long-term facility needs and upgrades. This will increase the choices available to TAs when considering how their sport and recreation facilities will be managed.
- **Risks need to be managed.** A TA has full control of risk with in-house management (but will be exposed to risk if it does not understand its cost structures and revenue potential). Outsourcing can reduce risk but poorly written contracts and leases often result in the TA retaining risk. Developing partnerships can result in sharing or transferring risk.
- Sport and recreation facilities must meet appropriate **health and safety standards**. Swimming pools that are PoolSafe accredited will meet the required standards for safe public access.
- **Economic objectives** (asset utilisation, cost and revenue) must be balanced with **social objectives** (access and participation).
- A TA needs to ensure its own **brand and image** are reflected because, regardless of who manages the facility, the public perception will be that the TA is responsible for its operation. A trust or private operator may “capture” the brand opportunity and in so doing undermine or alienate the TA brand and image.
- **Reputational risk** is linked to performance and if loss of reputation results in the loss of the service or contract there is a greater incentive to perform to a high level.



In-house Facility Management Model

The advantages and disadvantages of an In-house Model

ADVANTAGES

- A TA has a **high level of control over social demands** and returns - it is not profit driven.
- If there is a clear understanding of cost structures and revenue potential, a TA has a high degree of control over **managing risk**.
- A TA has **considerable control** over budgets, pricing, programming, staffing and facility maintenance.
- Profits can be invested **back into the facility or TA**, rather than losing profits to the private sector.
- A TA has **ownership and control of branding** of the facilities (same look and feel).
- **TA accountability is simplified**, with one organisation responsible for the delivery chain.
- A TA retains **institutional knowledge**.
- A TA has **direct interface with customers** (a call centre may provide a 24-hour service).
- **Skills can be leveraged within the TA**, in particular management and financial skills.
- **TA elected officials have a direct influence on operational policy** based on constituent expectations.
- A TA has a **strong commitment to facility-based club sport** e.g. swim clubs, water polo, basketball.
- **Tax efficiency is achieved** (if profit making).

DISADVANTAGES

- A TA often has **no contract** that defines quality standards to be achieved (there may be internal levels of service contracts).
- A TA may lack **marketing and entrepreneurial flair** and this will impact on access and participation (not nimble in responding to new ideas and taking risks with new programmes).
- Sport and recreation facilities often suffer from **short-term funding decisions versus long-term planning**.
- If the TA doesn't know the cost structures and revenue potential, this will compromise its **ability to manage risk**.
- A TA may have **low incentive or demand to control costs or grow participation to increase the ROI (financial risks)**.
- A TA has **resources tied up in assets** (direct and indirect).
- **Standard TA HR practices** may limit opportunity to incentivise staff or manage poor performance in a timely way.
- A TA has **high dependence on key personnel** for continuity of quality service.
- Front-line **professional standards** may not be reinforced by the TA where sport and recreation is not a high priority.
- A TA may not encourage **employment of specialists, which may impact on service quality**.
- **Political control and interference** may lead to poor decision-making, impacting on facility utilisation.



Stand Alone Business Unit (SABU) Model

The advantages and disadvantages of a Stand Alone Business Unit (SABU) Model

ADVANTAGES

- The SABU has a **service agreement** to demand efficiency and accountability but also sufficient independence to make decisions and respond to new opportunities.
- The SABU has a **high level of control over social demands** and returns – it is less profit driven.
- The SABU may be more effective and efficient through a **commercial culture**.
- The SABU may employ **in-house marketing and communications** to increase asset utilisation (access and participation).
- The SABU can focus on **cost control and buying power across a number of facilities** to achieve cost savings e.g. power, water, gas, chemicals.
- The SABU can take a **district or regional approach to delivery** of services to achieve consistently high service quality.
- The SABU can set **standard prices** across a number of facilities so they don't compete against each other (or price differentials to create competition).
- **Tax efficiency is achieved** (if profit making).

DISADVANTAGES

- The SABU **lacks commercial credibility** in the marketplace – it is not distinct from the TA and not a corporate.
- There is **no contestability** so the SABU has little incentive to generate income or achieve efficiencies beyond the service agreement (financial risks).
- The TA may require a **return on capital** (therefore increased cost).
- **Establishment costs are high** and because the SABU is a half-way house to a CCO the investment **may not provide sufficient ROI** for the TA.
- The TA and the SABU need a mechanism for **monitoring service performance**.
- **Standard TA HR practices** may limit opportunity to incentivise staff or manage poor performance in a timely way.
- Financial targets may reduce the SABU's **focus on club sport** based at facilities e.g. swim clubs, water polo, basketball.
- The TA **overhead allocation** may not be based on actual costs (noting that removing an activity results in redistribution of overheads).
- There is potential for **political interference** through TA Board appointments.



Council Controlled Organisation (CCO) Model

The advantages and disadvantages of a CCO Model

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none">■ Independent board appointments introduce commercial disciplines and specialist expertise that may not be available within the TA.¹³■ Risks to the TA can be controlled through the Statement of Intent (trading losses may be recoverable the following financial year).■ A CCO is a small, simple organisation with a dedicated focus on a narrow set of business objectives.■ Governance capability for a CCO is reinforced by requirements of the Companies Act 1993.■ The CCO holds a monopoly position but in the context of the competitive market it has integrity and is an effective proxy for a private firm.■ A CCO has access to external grant funding for capital projects (if the CCO is a registered charity).■ Risks often associated with TA ownership of assets can be transferred to the CCO (e.g. health and safety).■ A CCO may have buying power across a number of services to achieve cost savings.■ CCO costs and benefits are more transparent as a CCO reports separately as a company.■ A CCO may have flexible work practices and opportunities to incentivise staff to achieve and deal with non-performance issues.■ A CCO is positioned to be entrepreneurial and nimble in responding to new initiatives, trends and opportunities.■ A CCO has less opportunity for political interference than in an in-house model.	<ul style="list-style-type: none">■ The TA has high set-up fees and there is potential loss of efficiency in having two separate systems e.g. IT, finance, marketing, HR.■ Annual CCO director's fees (range from \$172,750¹⁴ for a large TA, to around, \$65,000 for a smaller TA),¹⁵ plus the cost of director's insurance.■ The TA and the CCO require resources to report and (the TA) to monitor CCO performance.■ The CCO pays tax on profit (but may access tax benefits and reduce net interest costs via use of imputation credits).■ The TA owns the facilities but may have limited control and therefore perceives increased risk, creating potential for conflict.■ There may be conflict with the CCO approach if a TA has difficulty relinquishing authority.■ There is a risk of separating out CCO facilities and leaving other facilities within the TA, with variable service quality and branding issues.■ A conflict of interest is possible if an elected TA member is represented on the CCO Board.■ A TA overhead allocation may not be based on actual costs incurred.■ A CCO may move away from the core objectives in response to demand from events and exhibitions and the revenue potential from these activities, resulting in displacement of community sport.■ There may be high reliance on the CCO CEO, with lack of succession planning and risk typical of a small organisation.■ Tension between the TA and the CCO may arise if the TA attempts to go beyond this role in monitoring or decision-making.■ The CEO of the CCO may act too autonomously and not in the best interests of the TA.

¹³ Review of Governance and Management, Aquatic Facilities Strategy, Report to Hastings District Council (2011), Opus International Limited

¹⁴ Manukau Leisure Services Limited, 16-month report to 31 December 2010

¹⁵ Review of Governance and Management, Aquatic Facilities Strategy, Report to Hastings District Council (2011), Opus International Limited, p29

Contracting (Outsourcing) to a Private Provider Model

TAs may outsource all or some aspects of sport and recreation facility management to a private provider, regional sports trust, not-for-profit organisation or community trust. This includes:

- (a) Full facility management contract for a facility or facilities.
- (b) Lease of a facility or facilities or licence to occupy.
- (c) Contract for facility operations (e.g. opening and shutting a swimming pool and providing life-guard services).
- (d) Management agreement with a local community committee or charitable trust.

The advantages and disadvantages of Contracting (Outsourcing) to a Private Provider Model

ADVANTAGES

- A **contract** between the TA and the contractor **clearly defines the quantity and quality of services to be provided** and specifies social as well as **financial outcomes** (costs cannot be hidden).
- A contractor may **increase community access and utilisation** by introducing quality management systems and marketing.
- A contractor may **operate at less cost** than a TA through flexible employment practices and greater buying power and **produce more income** through commercial and marketing expertise.
- When a win-win contract is in place, the TA can receive a **profit share/dividend** when a facility achieves a surplus.
- **Risk of profit/loss sits with the contractor** so there is certainty around budgets and no exposure to budget blowouts (**costs and benefits are more transparent**).
- A contractor may **provide specialist, qualified staff, professional development** for staff and access to a skill base not available to a TA.
- A contractor may be **entrepreneurial and responsive to new initiatives and opportunities** if this contributes to increased participation and profitability.
- A contractor is responsible for all HR functions, which **enables the TA to pass a degree of risk to the contractor**.
- Quality contractors **can add considerable value to facilities** (including poor quality facilities) through investment and expertise.
- **There is less opportunity for political interference** that can result in poor decision-making than in an in-house model.

DISADVANTAGES

- A contractor will accurately assess the true costs and potential revenue and this **may disadvantage the less experienced TA in negotiations and result in a contract at less than a fair contract value**.
- A contractor **may focus on profit-generating activities** (the contract and reputational risk will usually ensure there is a balance).
- **Specification by the TA is difficult and managing a contract is open to dispute**. Resource must be provided to manage the relationship and monitor contract delivery.
- **A TA may be tied into long-term contracts**. If changes in policy direction occur, this may require expensive variations or cancellation of existing contracts.
- A TA may lose **institutional knowledge** that is difficult to re-establish and the impact on in-house staff may be high in the transition.
- **The contractor's profit motive** may not align with the values of the TA (but can be secured through the contract).
- A contractor may **attempt to cover up an emerging problem for fear of jeopardising the contract** or the relationship. The problem then becomes bigger at a later stage.
- **There is potential for disagreement about who is responsible for maintenance**. Trust is needed to ensure decisions that are fair to both parties.
- **Poorly maintained assets** may result from **poorly executed contracts** that are based on the term of the contract relationship rather than the life of the asset.
- **Financial targets may reduce the focus on club sport** based at facilities e.g. swim clubs, water polo, basketball.

Contracting (Outsourcing) to a Community Trust or Committee Model

The advantages and disadvantages of Contracting (Outsourcing) to a Community Trust or Committee Model

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none">■ It is a low cost option for the TA (trust governance is on a voluntary basis with high community involvement), with flexible employment conditions.■ A funding agreement (or contract) between the TA and trust can clearly set expectations for quality service delivery and efficiency gains.■ A trust governance structure focuses on the delivery of a single activity without the distraction of multiple and often competing activities within a TA.■ Trusts may not be driven to make a profit and are able to consider the wellbeing of the community.■ Trusts may provide an opportunity for the TA to share or transfer risk.■ A trust is likely to have a strong focus on club sport e.g. swim clubs, water polo, basketball.■ A trust can apply private sector practices and decision-making and be more responsive to new opportunities than a TA.■ The trust can reinvest surpluses (if any) back into the facility or community.■ The trust may have access to community grant funding not available to TAs or a corporate.■ Charitable trusts (and incorporated societies with tax exemption) have tax-free status.	<ul style="list-style-type: none">■ Activities must be of sufficient scale to warrant the expense of setting up trust structures and systems (or alternatively the trust purchases services from the TA).■ If the management and marketing systems established by the trust are inefficient, this may result in low access and participation.■ Trustee selection processes must be robust to avoid “capture” by self-interest groups or individuals and ensure commercial and community experience.■ Political appointments are often made to trusts, which may result in conflicts of interest.■ The TA may have increased risk if the trust does not have management capability or an entrepreneurial approach.■ A trust may struggle with a balance between club sport and public access, depending on the degree of “capture” by trustees.■ If the principal reason for creating a trust is as a fundraising arm of a TA, a funding agency may be reluctant to make grants.■ A Trust Deed winding-up clause may require distribution of assets to a TA, and this may impact on funder decisions.■ If the TA has difficulty in relinquishing authority, interference may lead to dissatisfaction and difficulty finding competent trustees.■ Meeting safety and water quality standards may be challenging if this responsibility is with the trust or committee.

Mixed Management Model

The advantages and disadvantages of a Mixed Management Model

ADVANTAGES

- TAs can apply what is learnt from the most successful to the less successful models to bring about **improvements in service quality**.
- The TA can drive **competition** between the various providers to improve outcomes for customers.
- The TA can gain **a clearer view of its costs and revenue potential** for individual sites.
- It can help the TA **identify drivers for the most efficient model**, and these factors can in turn be applied across other properties.

DISADVANTAGES

- TAs must manage **multiple relationships and variations in reporting and contract management**, which can result in inefficient or ineffective service delivery or duplication of costs e.g. overheads.
- TAs may have difficulty in maintaining **consistency of quality service standards** across multiple facilities with different management arrangements.
- TAs may find it difficult to match the **variable capability and/or capacity** of a community trust model with the service quality and marketing capability and resources of a TA or private contractor.
- The model may result in **different branding of the sites** which doesn't fairly represent the investment the TA has made in the facilities.



A “Hands-off” Model

The advantages and disadvantages of a “Hands-off” Model

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none">■ It is a low-cost option, as the TA is not directly responsible for the asset and its operations.■ There is low financial risk to the TA where an annual operating grant is provided to deliver agreed outcomes.■ The trust may apply private sector practices and decision-making and be more responsive to new opportunities than a TA.■ The trust can be responsive and entrepreneurial in meeting the needs of a diverse community.■ A trust may have access to community grant funding not available to TAs or a corporate.■ Charitable trusts (and incorporated societies with tax exemption) have tax-free status.■ A “sale” agreement can clearly set out the TA’s expectations for quality service delivery and community access (if this approach is taken).	<ul style="list-style-type: none">■ If the trust’s management and marketing systems are inefficient, this may result in low access and participation.■ The public considers the TA is responsible for providing sport and recreation facilities and will look to the TA to ensure quality service delivery (which may generate demands for a higher contribution to operations).■ A TA may invest in the initial capital and in operational costs over a number of years but, if the trust winds up, ownership reverts to the TA.■ As the asset is not on the TA’s books, the risks may be high if there is deferred maintenance to meet the TA’s required standards.■ Self-interest groups and individuals may “capture” a trust, with resulting reduced public access.■ A trust may struggle with a balance between club sport and public access, depending on the ownership model.■ If a trust is the “purchaser”, the TA may want the assets returned in the event of dissolution and this needs to be negotiated at the time of purchase.

In the United Kingdom (UK) some significantly large trusts have emerged that are operated by leisure professionals with a skilled workforce (usually drawn from former council employees) and operate multiple facilities around the UK. The trusts are managed by a chief executive from a commercial background and have become multi-million dollar “businesses” operating along commercial lines.

Under this model the assets remain in council ownership and the trust is free to pursue other work. The trust may purchase services from the council e.g. administration and payroll, rather than incur the cost of operating separate systems. An elected member representative is on the board of trustees, along with other competent professional directors.

In some cases very large trusts are running high performance facilities and large spectator arenas, as well as community aquatic and leisure centres. The trusts are able to provide efficiencies of scale and perform to meet the high expectations and requirements of best value service delivery.

In 2011, the City of Boroondara, Melbourne, offered a single management contract for a group of five major aquatic and recreation facilities, with a total asset value of \$120 million and an annual turnover in excess of \$12 million.

The contract was awarded to YMCA Victoria for an initial period of three years, with possible further extensions, at Council’s discretion, of two terms of three years, to a maximum contract term of nine years. The contract provided Council with over \$3 million for the first three-year period of the new contract, with the expectation that the return would continue to increase in subsequent years.

TA-School Partnership Model

The advantages and disadvantages of a TA-School Partnership Model

ADVANTAGES

- The partnership may generate **operational synergies between school and community use.**
- It may be possible to develop **larger, more complex facilities** that are valued by the community.
- The TA will be able to **share or transfer risk** to the school.
- The TA may gain **access to strategic sites** that are accessible to transport and the community.
- **Unnecessary facility duplication can be minimised.**
- The partners may be able to **leverage additional capital.**
- Each partner will be able to **access the other partners' skills.**

DISADVANTAGES

- The TA may not be able to control the **location of the facility on school property.** An **accessible location** is essential to get community buy-in.
- A lack of **marketing and entrepreneurial flair**, which may impact on access and participation.
- The management may lack capability which **may increase risk** to the TA, particularly if anticipated revenue is not realised and/or costs are more than budgeted.
- The **responsibility for depreciation and renewal** must be clearly understood or disputes may arise.
- The TA may need to make a **large investment** and there may be a **minimum return** in terms of public access.
- The partnership may be subject to **"capture" by self-interest** groups, impacting on utilisation.



Clustering of TAs (or Shared Services) Model

The advantages and disadvantages of Clustering of TAs (or Shared Services) Model

ADVANTAGES

- A TA may be able to provide **higher quality facilities** than might be possible with a single TA.
- TAs can provide a **hierarchy of facilities** of different quality across two or more TAs.
- TAs may be able to **rationalise ageing facilities** that are likely to require increased maintenance over time and replace them with high quality facilities.
- **Cost savings** may be possible for the TA through a shared service approach to provision and maintenance.
- Increased **marketing and programming expertise** may be possible.
- TAs can benefit from **increased scale** when exploring alternative management options.
- TAs can **collaborate** rather than compete with neighbouring facilities in close proximity.

DISADVANTAGES

- There may be a **loss of direct control** over facilities in which the TA has invested.
- **Branding and TA identity may be lost** where there is one TA managing facilities on behalf of two or more TAs.
- **Responsibility for maintenance and renewal** would need to be clearly specified in a contract.
- Opportunities might be limited because of the **distance between districts or cities**.



TA Franchise or Licence to Occupy Model

The advantages and disadvantages of a TA Franchise or Licence to Occupy Model

ADVANTAGES

- TAs have all the **advantages of a private sector model** through **public sector delivery**.
- TAs have all the **advantages of public sector delivery without the associated risks**.
- **Efficiencies are increased** with collective buying power across multiple TAs.
- There are potential **cost savings** for TAs with a shared service approach to provision and maintenance.
- An **increased scale** allows TAs to deliver more effective and efficient services.

DISADVANTAGES

- There may be **loss of direct control** over facilities in which the TA has invested.
- **Branding and TA identity may be lost**.
- **Responsibility for maintenance and renewal** would need to be clearly specified in a contract.



Private Sector Partnership Model

TAs might decide to lease land to a private enterprise for the purpose of developing a sport and recreation facility, or they might enter into a BOOT arrangement (build, own, operate, transfer), or invest in the public good component of a commercial aquatic centre development.

The advantages and disadvantages of a Private Sector Partnership Model

ADVANTAGES

- **There are incentives for new and improved TA approaches** such as innovative design, ongoing technological advances and a whole-of-life approach to capital projects.
- Private sector provision **may replace the need for public sector investment** in facilities in some cases.
- **Risk is shared** between the public and private sector parties.
- The private sector may offer **business and management expertise** beneficial to the public sector.

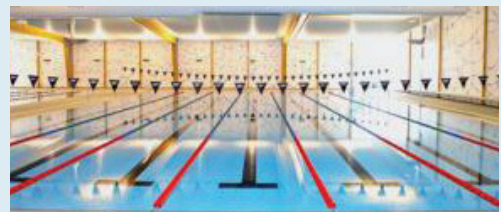
DISADVANTAGES

- TAs need a **high level of expertise** to implement successful private partnering arrangements to avoid significant risks.
- The TA **cost of set-up and management** needs to be **assessed against the total value and benefit of the project** compared with other procurement approaches available.
- The **TA is ultimately accountable for delivering public services**. There must be a sound base for making the decision to choose this approach, managing its implementation and long-term operation, and effectively carrying out its accountability obligations to the public.
- Partnering arrangements **may need to be long-term** and the TA priorities may change during this time.
- If a **private partnership fails**, the problem may come back to the TA for resolution.

In 2011, the Northern Arena opened in Silverdale, Auckland, on land zoned commercial. The facility focuses on coaching swimmers and includes two 25m-long pools and two 10 x 14m pools.

The facility also provides three state-of-the-art group fitness rooms, a fitness gym, a yoga studio and a physiotherapy centre. The location was chosen because the owner identified that there was a gap in the market, with few swim facilities, many beaches and a growing population base.

The facility provides learn to swim, fitness and other programmes for all local schools and residents and is also home to the local swimming club.



What is important and which model will deliver on the importance factor?

	In-House	SABU	CCO	Trust or Committee	Private Contract	Mixed Model	Hands-Off	TA/ School	Clustering	TA Franchise	Private Partner
Control over social demands and returns – not profit driven											
High focus on controlling costs and increasing revenue											
Control over managing risk											
Reduced financial and other risks											
Control over budgets, pricing, programmes, staffing, maintenance											
Simplicity of accountability with no monitoring, transition or set-up costs											
Retention of institutional knowledge											
Direct interface with customers											
Improved service quality											
Commitment to club-based sport											
Contract or service agreement that demands efficiency and accountability											
Short-term contracts to increase flexibility											
Long-term contracts to encourage investment in assets											
Application of private sector practices to public sector assets											
Reinvestment of surpluses back into the community											

What is important and which model will deliver on the importance factor?

	In-House	SABU	CCO	Trust or Committee	Private Contract	Mixed Model	Hands-Off	TA/ School	Clustering	TA Franchise	Private Partner
Marketing and entrepreneurial flair to drive increased access and participation											
Flexible HR practices to achieve operational efficiencies											
Facility management specialists to increase access and participation											
Access to community grant funding											
Operating synergies with partners to achieve efficiencies											
Access to other partners' skills e.g. marketing and programming											
Leveraging of capital to invest in facilities											
Accessing strategic sites that are accessible to the community											
Direct community provision of sport and recreation and sport facilities											
Cost savings through shared services											
Increased efficiencies through collective buying power											
Collaboration and partnering instead of competing											
Tax efficiency											

**Is there a match between
what is important to us and
our current delivery model?**

YES



**Maintain the
status quo**

NO



**Explore alternatives that
match a new procurement
option**

Essential Reading

- AS/NZS ISO 31009:2009 *Risk Management*
- *Achieving Public Sector Outcomes with Private Sector Partners*, (2006), Controller and Auditor-General
- *Procurement: A Statement of Good Practice*, (June 2001), Controller and Auditor-General
- SNZ HB 9213:2003 *Guide to Local Government Service Delivery Options*
- SNZ HB 4360: 2000 *Risk Management for Local Government*
- SAA HB 240: 2000 *Guidelines for managing risk in outsourcing utilizing the AS/NZS 4360 process*
- *Territorial Authority Community Sport and Recreation Facility Management Choices in New Zealand: Research Report*, (February 2013), Sport New Zealand
- *Territorial Authority/School Partnerships: A Guide*, (February 2011), Sport New Zealand
- *The Economic and Social Value of Sport and Recreation to New Zealand*, (September 2011), Research Report No. 322, Lincoln University

