

## **WINCHESTER LEISURE MANAGEMENT CONTRACT – SOFT MARKET TESTING**

### **SUMMARY OF REPONSES**

**29 MAY 2018**

A soft market testing document was developed which set out the details of the opportunity and posed the following questions, the aims of which were to gain the view and interest of bidders in the opportunity:

- **Q1:** Would you be interested in bidding for the contract to manage the Winchester Sport and Leisure Centre from January 2021 to December 2035? If not, please can you explain your reasoning?
- **Q2:** What is your view on the headline risk matrix set out in soft market testing document?
- **Q3:** Based on detail set out in this document and the assumptions that the operator will deliver all swimming lessons and there will be no other protected usage and pricing beyond that set out in the document, please provide an indication of the likely management fee that you believe could be achieved?
- **Q4:** As outlined in this document, the Council's current preference is that the formal opportunity will be procured via the Open procedure. However, they might seek to adopt a procedure which enables them to reserve the right to negotiate if necessary. Would this have a bearing on whether or not you would wish to participate in the tender? If so, please explain further.
- **Q5:** Can you provide examples of similar-scale facilities that you manage?
- **Q6:** Do you have any other comments or questions regarding the opportunity?

It should be noted that for Q3, the protected usage and pricing referred to is as follows:

#### **University of Winchester:**

- Sports hall: Wednesday 12.00 pm – 7.00 pm during term
- Squash courts: Wednesday 12.00 pm – 7.00 pm during term
- Synthetic turf pitch: Wednesday 12.00 pm – 7.00 pm during term
- Athletics track: Wednesday 12.00 pm – 7.00 pm during term
- Swimming pool: Wednesday 12.00 pm – 7.00 pm during term (half of the pool only).

#### **Pinder Trust**

- Off-peak usage on weekdays will be primarily for customers with long term health conditions or for rehabilitation.

Responses were received from seven operators. They ranged in size from those with a small number of public sector contracts to those with over 30 and were a mixture of leisure trusts and commercial organisations

A summary of the responses is presented in Table 1.

**Table 1: Summary of Operator Soft Market Testing Responses**

Question	Operator 1	Operator 2	Operator 3	Operator 4	Operator 5	Operator 6	Operator 7
<b>Q1</b> <b>Would you be interested in bidding for the contract to manage the Winchester Sport and Leisure Centre from January 2021 to December 2035? If not, please can you explain your reasoning?</b>	<p>Yes.</p> <p>It will be an iconic, flagship facility and one we believe they are well-placed to manage. We believe we could be an excellent partner for the Council and stakeholders.</p>	<p>Yes.</p>	<p>Yes.</p> <p>It will be a fantastic new leisure centre in an attractive catchment area. However, some reasons they may not tender include:</p> <ul style="list-style-type: none"> <li>• The market is extremely buoyant now, so they cannot tender for all opportunities</li> <li>• They would not tender if they thought that the management fee expectation from the Council was unrealistic, or if during the tendering they found it to be so</li> <li>• Some operators have been submitting extremely ambitious management fees, which are not sustainable. If</li> </ul>	<p>Yes.</p> <p>This contract presents a unique opportunity for us to expand their reach and engage with different communities.</p>	<p>Yes.</p> <p>However, this is subject to their being confident that the project is affordable.</p>	<p>In principle, yes.</p> <p>There are many opportunities coming to market annually and this opportunity would be carefully assessed in the context of others.</p> <p>We have a general preference for DBOM opportunities, so that would also be taken into account.</p>	<p>Yes.</p>

Question	Operator 1	Operator 2	Operator 3	Operator 4	Operator 5	Operator 6	Operator 7
<b>Q1</b> (continued)			this is still the case when this tendering opportunity is live, it may affect their decision.				
<b>Q2</b> <b>What is your view on the headline risk matrix?</b>	<p>The matrix appears to be fair and sensible approach. We would be happy to bid on this basis.</p> <p>The Council could consider asking bidders for some additional options regarding utilities tariff risk depending on their preferred position, e.g. as bidders to provide a price for</p> <ul style="list-style-type: none"> <li>taking full tariff risk</li> <li>taking an annual 5% increase risk (with the Council picking up anything above)</li> <li>the Council taking full tariff risk.</li> </ul>	<p>The Council could consider more of a shared risk strategy on utilities using a utility benchmark solution for shared risk on tariff.</p> <p>They are comfortable with the operator taking responsibility for utilities consumption.</p> <p>They appreciate the use of the University, Pinder Trust and clubs, but would want to understand more how flexible will the Council be on pricing and annual increases?</p> <p>All other areas are as expected.</p>	<p>They had no comments on the proposed risk matrix. It is one they would expect for a new leisure centre.</p>	<p>The risk allocation set out seems appropriate; however, any change the Council makes would have an impact on the management fee.</p> <p>It is noted that the Council accepts the risk of historic LGPS underfunding and it would also be expected that they would be responsible for any future deficit. In return, the operator is responsible for employment contributions. This reflects their current agreement with existing partners.</p>	<p>It is a good starting position for further discussion. Any arrangement should reflect a balanced risk sharing approach between both parties in the spirit of partnership working.</p> <p>The leisure environment/market has shifted significantly in the last few years reflecting a number of key commercial elements which have impacted on a leisure operator's ability to generate surpluses to support enhanced leisure management fees.</p> <p>We therefore think it is reasonable for the contract to reflect:</p> <p>a) Income Benchmarking</p>	<p>We are comfortable with the risk allocations and endorses and supports the concept that the risk should reside with the party most able to manage and or mitigate that risk.</p> <p>Agree with most of the positions set out in the table with the exception of utilities tariff risk which is an uncontrollable risk for either party.</p> <p>We recommend a commercial position where this utilities tariff risk is shared. A utilities collar and cap is suggested where the operator bears the risk of fluctuations +/- 2% of CPI. Where tariff falls outside this range</p>	<p>We are generally comfortable with the risk allocation. They would prefer the Council to retain responsibility for certain elements of the building, e.g. roof structure, pool plant.</p>

Question	Operator 1	Operator 2	Operator 3	Operator 4	Operator 5	Operator 6	Operator 7
<b>Q2</b> <b>(continued)</b>	This would enable the Council to make an informed decision regarding the best value approach.				b) Utility Benchmarking  c) Competing Benchmarking  d) Flexibility for the operator to set all fees and charges  e) No indexation on the Management Fee payment to the Council (or this figure capped at say 1% per annum)  f) Any Performance Monitoring system to be points based with zero financial deductions reflecting the fact it is a surplus management fee scheme  g) A profiled management fee.	the Council would bear the financial benefit or additional costs.  The following commercial issues will be key to us assessing their appetite to bid: <ul style="list-style-type: none"> <li>• Income Benchmarking</li> <li>• Aggregate Cap on Liabilities</li> <li>• General changes in law.</li> </ul>	

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<b>Q3</b> Based on detail set out in this document and the assumptions that the operator will deliver all swimming lessons and there will be no other protected usage and pricing beyond that set out in the document, please provide an indication of the likely management fee that you believe could be achieved?	See below						
<b>Q4</b> As outlined in the introduction, the Council's current preference is that the formal opportunity will be procured via the Open procedure. However, they might seek to adopt a procedure which enables them to reserve the right to negotiate if necessary. Would this have a bearing on whether or not you would wish to participate in the tender? If so, please explain further.	Happy to bid under an Open procedure and additionally to include negotiation if necessary.  We would find it beneficial for all parties to hold a clarification meeting after the initial documents are released. This will allow us to understand fully the Councils requirements.	No, either option would be fine.	The Open procedure would be applicable.  It would be important for the operator to be able to input into the design, which has been the case for many new facility procurements over the last few years.	Preferred procurement is Competitive Dialogue.	No, either option would be fine.	Given the complexity and scale of the facilities being delivered, we believe discussion and dialogue opportunities would be beneficial.  The choice of procurement procedure would have a bearing on their appetite to bid.	Comfortable with either route. Preference would be for some negotiation as we have found that offers a greater opportunity for the operator and Council to understand and explore the best solutions to meet the Council's objectives.

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<b>Q5</b> <b>Can you provide examples of similar-scale facilities that you manage?</b>	<p>Manage 168 facilities in partnership with 52 local authorities. The portfolio includes a number of facilities with 50m pools, athletic stadia, clip and climb and treatment rooms.</p> <p>They also manage a number of facilities locally (i.e. within Hampshire).</p>	<p>Provided five examples of similar sized facilities they manage, including one locally (within Hampshire).</p>	<p>Manage 85 leisure facilities on behalf of 16 local authority clients, schools, Academies and Independent Trusts. A number of these are of a similar size to the new Centre and one includes a 50m swimming pool.</p>	<p>Manage a number of facilities in Hampshire, Dorset and London.</p>	<p>Manage a broad range of facilities and provided three examples of similar sized facilities, including those with 50m swimming pools.</p>	<p>Operates over 65 major sites and leisure facilities across the UK.</p> <p>Manage a wide range of municipal leisure centres all of which include the activities and facilities mix proposed here. In particular, they provided examples of both 50m swimming pool facilities and athletics stadia.</p>	<p>Manage a range of major facilities in London.</p>
<b>Q6</b> <b>Do you have any other comments or questions regarding the opportunity?</b>	<p>This project will be a major new leisure facility of national status and we will be prioritising this as a key tender opportunity when the tender comes to market.</p> <p>Should the Council require any further input (prior to the formal procurement commencing) in the way of site visits, expert operational opinion or advice, we would be happy to assist.</p>	<p>Within the gym area is the Council keen to see a minimum of 200 pieces of equipment? Many gyms now focus on functional fitness rather than rows of CV stations and this may mean that the requirement changes from a traditional gym layout and less equipment.</p> <p>Has the Council made any consideration for treatment rooms / nail clinics / hair salons?</p>	<p>The Council should be clear about their affordability expectations prior to starting the formal tendering process. This is particularly important given how busy the market is now.</p>	<p>The facility proposed in Winchester has a similar catchment to other facilities we manage. We have seen success in areas such as the health and fitness strategy (an increase in members from 6,000 to over 25,000 in 2017).</p>	<p>Regarding the Athletics track and associated facilities, we expect the capital equipment fit-out and ongoing replacement of these items to fall outside of an operator's responsibility? If not, this will have a direct impact on the management fee. The same applies for maintenance responsibilities and lifecycle of this area.</p> <p>We would be keen to meet with the design</p>	<p>We would be very grateful of regular information updates in relation to the prospective procurement process and the likely procurement timetable and procedure.</p>	<p>We would be interested in having input into the facility mix, where there is potential to further increase physical activity participation and a financial return, e.g. through an enhanced climbing and play offer.</p>

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Q6 (continued)					<p>team and discuss operator's requirements, e.g. power and data requirements, fixing locations, swimming pool camera system infrastructure being provided, etc.</p> <p>Can an operator's initial equipment investment be funded via Council Prudential Borrowing?</p> <p>We assume that the Sport England form of contract, which represents fair and equitable terms for both parties, will be used.</p> <p>As set out in Q2, we would require the full Sport England Benchmarking schedule to be in place.</p> <p>We feel the car parking provision is under-sized based on the stature and facility mix of the site. Also, it is important that car</p>		

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					parking to be free of charge for customers. If there is a fee, it will have a direct impact on user revenue and subsequently the management fee provided to the Council.		

## Impact on the Invitation to Tender and Services Specification

### Q3: Indicative Management Fees

The Council received a very good response from potential operators. The feedback gave a range of indicative annual management fees based on the information available to them at that time.

The bidders were asked to price on there being no pre-agreed discounts to clubs (beyond that set out on page 1) and swimming lessons being provided by the operator. Average annual management fees were quoted between £250,000 to £1,000,000 (payment to the Council).

The ultimate fee received following the formal tendering exercise will determine whether the Council can achieve a cost neutral project. This supports the need for the Council to be cautious about offering discounts and other concessions to clubs at this stage.

### Q2: Risk Matrix

Based on the feedback from the operators, responsibility for **utility tariff risk** will remain with the Council. This will mitigate the risk of significant energy price fluctuations for the operators.

The contract will also allow for **utility price benchmarking** and **competitor facility benchmarking** (in relation to any new facility funded by or sponsored by

the Council). This again will help to mitigate some of the bigger operational risks for the operators.

### Q4: Procurement Route

The procurement route has been adjusted to allow the Council scope for some negotiation once tenders have been received (should they require it). This will suit some of the bidders, who have stated a preference for negotiation while also allowing the Council scope to refine the financial offers received should there be an affordability gap on the project.