

Test Valley Borough Council

Descriptive Document

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## Foreword

We have great pleasure presenting an opportunity for the right partner to support Test Valley Borough Council in developing and operating our Leisure Facilities. Promoting healthy communities is a key objective of the Council and we wish to make the most effective use of our resources (including leisure facilities and parks) in maintaining and improving community health alongside working on wellbeing initiatives from partner organisations that improve the quality of the natural and built environment of Test Valley.

Being more active at recommended levels has a clear and positive effect on a person's physical and mental health and wellbeing. Test Valley Borough Council is therefore committed to providing opportunities for people to participate in sport and physical activity through investment in and the provision of our swimming pools and leisure centres.

The Council is now seeking to procure an appropriate partner organisation to invest in, develop and manage these facilities on our behalf, to ensure they continue to run cost effectively, are sustainable and remain inclusive and accessible to everyone who lives or works in the Council area.



Councillor Tony Ward

Community and Leisure Portfolio Holder

Test Valley Borough Council

## Section 1 – The Opportunity

Test Valley Borough Council (the Council) is committed to high quality leisure provision and is seeking a partner (or partners) who they can work with to deliver their vision and outcomes set out in Section 2. As a result the Council is inviting tenders from prospective Partners to enter into an agreement to design, build, operate and maintain the Council's Leisure Centres.

Following the development of a business case, the Council took the decision in September 2015 to proceed with the procurement of a Partner (or Partners) to both develop and deliver the ongoing management of the Leisure Centres.

The facilities are currently managed by

- Valley Leisure Limited

The existing facilities are as follows

- Andover Leisure Centre (ALC)
- Romsey Rapids (RR)
- Charlton Lakeside (CL)
- Knightwood Leisure Centre (KLC)
- Romsey Sports Centre (RSC)

In order to achieve its outcomes and vision, the Council encourages submissions from all Leisure Operators including existing Leisure Not for Profit Organisations and other Operators or Social Enterprises which may have relevant experience.

This Descriptive Document, together with the Pre Qualification Questionnaire (PQQ) sets out the background to the existing facilities, the Council's vision and outcomes and the process by which interested parties should express their interest. As part of this process the draft ISDS has also been prepared to provide bidders with further detail on the proposed contract and future requirements, and to assist bidders in their decision to bid.

## Section 2 – Outcomes and Objectives

The Council has a number of core outcomes and objectives they are seeking to deliver from the project which support and deliver the overall corporate objectives of the Council. These are set out in a number of corporate documents (including the Test Valley Sport and Recreation Strategy) and we summarise below the objectives which are of key relevance to leisure provision.

The key outcomes which the Council is seeking to achieve from any future leisure provision include the following

- **Facility Investment**

- Redevelopment of ALC, through either a total replacement or major refurbishment, with a facility mix which meets the needs analysis but in particular should seek to include:
  - Enhanced pool provision over and above the existing provision, to address the shortfall in provision identified. This is anticipated to be at least a 6 lane, 25 metre pool, with learner pool provision as minimum provision, with the potential to deliver additional capacity for swimming (such as through a moveable floor or through larger water space)
  - Sports Hall provision to deliver on the current programmes of use (recognising the need for events)
  - Squash Court provision to meet the needs identified, possibly through flexible space (utilising moveable walls to deliver studios when not being used for squash)
  - Health and fitness provision to meet the identified demand, including studios
  - Possible space allocated for community health provision (this is identified as circa 800 square metres of space)
  - Supporting facilities to ensure the delivery of an effective leisure facility
- Investment in RR and RSC to deliver a future facility which provides more commercial opportunities and provide a holistic approach to the management of the site, which reflects the ambition from Romsey Future.
- Life Cycle costs responsibility to sit with the contractor
- New or refurbished facilities to be environmentally sustainable, through striving to achieve BREEAM (Building Research Establishment Environmental Assessment Method) excellent.

- **Service Delivery**

- Maintain the level of quality of provision as current as a minimum, with continuous improvement
- Deliver on the Council's key objectives for provision of sport and physical activity
- Increased participation in sport and physical activity, based on improving the current levels of participation
- Provision of pricing for disadvantaged groups and core prices

- **Financial Implications**

- Capital Investment may be considered from a number of sources including the market, bidders, Council capital reserves, Section 106, possible grant funding and Council prudential borrowing
- The revenue position is expected to be significantly improved on the current costs.
- Surplus Share to be included based on simple 50:50 share of surplus above management fee submission, to provide income generation for the Council.

- Utilities benchmarking to be included based on price benchmarking only – Contractor responsible for energy consumption

The Contractor shall ensure that the Services contribute towards and shall evidence the Services' contribution towards the following documents (or the future equivalent/replacement strategies/documents):

- Test Valley Sport and Recreation Strategy

In particular the Council is seeking for a partner to invest in certain facilities and deliver the outcomes through a Design, Build, Operate and Maintain (DBOM) contract, together with the leisure management. The business case outlines potential investment opportunities, which the Council is particularly keen to deliver

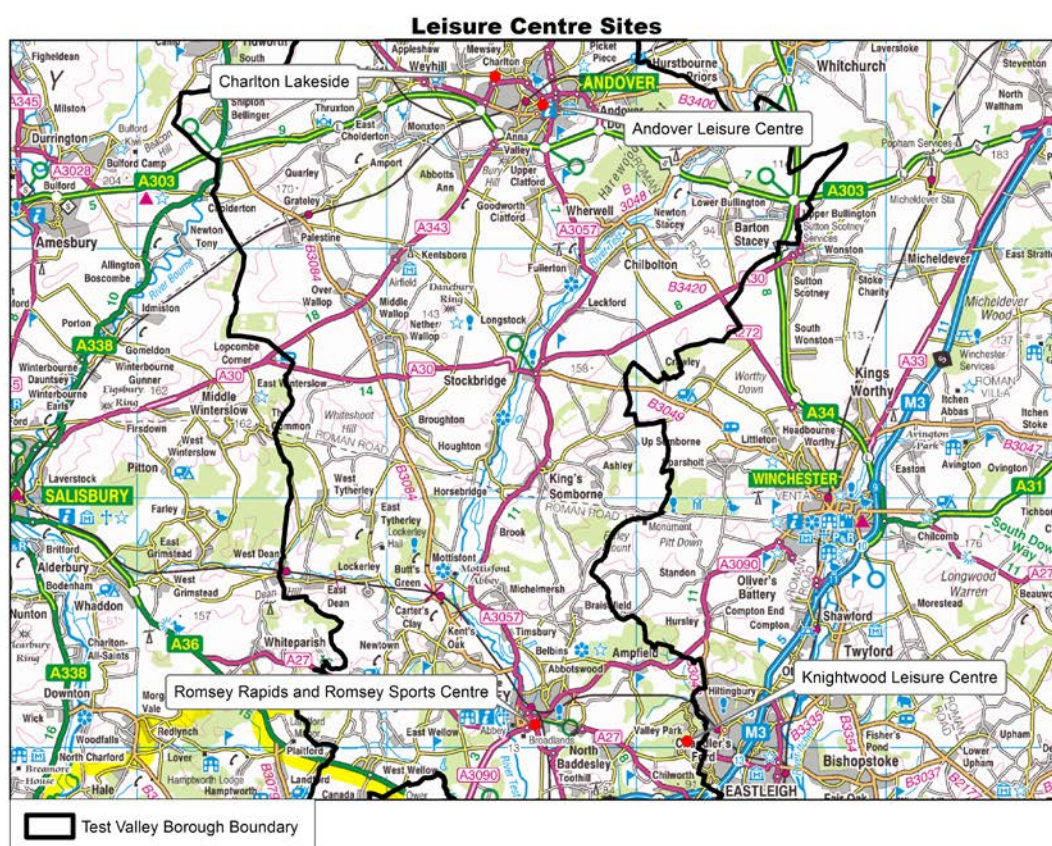
- A new Andover Leisure Centre as set out above and investment in Romsey Rapids

## Section 3 – The Project and Key Commercial Terms

## Scope of the Contract

The Council wish to appoint a Partner (or Partners) to deliver the Leisure Centres for the Council and in particular to operate, manage and invest in the following Facilities

### Map 1 – Leisure Facilities in Test Valley



Further detail is provided below about the existing facilities, with more details available on the websites.

£'000's	ALC	RR	RSC	CL	KLC
Income	2,477	2,502	8	153	152
Expenditure	2,572	2,271	16	165	197
Net Surplus/ (Deficit)	(95)	231	(8)	(12)	(44)
User Numbers '000's	ALC	RR	RSC	CL	KLC
2012/13	476	470		14	47
2013/14	501	489		16	52

## Approach to the Partnership

### Bidders' Open Day

The Council is holding a Bidders' Open Day on **Friday 20 November** where Bidders will have the chance to hear and discuss the opportunity with the Council's project team and advisers and visit the Centres.

Interested parties are asked to confirm their attendance at the Open Day **by 16 November** including the number of people (maximum of 2) attending. Please e-mail **[leisurecontractprocurement@testvalley.gov.uk](mailto:leisurecontractprocurement@testvalley.gov.uk)**

The competitive dialogue process provides the opportunity for the Council and bidders to work together and develop the most appropriate long term solution taking into account the needs of residents and users of the facilities, and expertise of both parties.

The Council is seeking to develop an agreement(s) which is outcome driven with the onus on the partner's own expertise and a focus on self monitoring. A partnership approach with the successful partner which seeks to allow the facilities and services to evolve and adapt to new developments and ideas is favoured by the Council.

It is expected that the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) will apply to the award of these contracts and that staff may transfer to an incoming partner. Bidders are expected to seek independent legal advice on the application of TUPE in these arrangements. Further information and details will be provided in the Invitation to Submit Detailed Solutions.

The Council has a strategic commitment to achieving high environmental standards, particularly with respect to minimising carbon emissions through energy efficiency and renewable energy. High performance standards will therefore be expected and required as part of these contracts.

Dialogue issues which prospective partners may wish to consider to develop and inform their approach to the contracts may include:

- Potential capital investment proposals – the Council is keen to discuss proposals which deliver improved revenue positions and provide for a return on investment.
- Preferred contract length and the reasons why this is best value for the Council (the Council is currently considering up to a 30 year contract)
- Innovative proposals which improve the delivery or operation of the services
- How the solution will deliver enhanced service and the outcomes of the Council

## Key Commercial Terms

### Affordability

The Council has an existing revenue budget for the operation of the leisure facilities which it is expecting to deliver significant revenue savings on through investment in new and refurbished facilities. It recognises however that any capital will potentially need to be provided by the Council for this investment and could be funded by through revenue savings.

Alternatively the Council may decide to fund capital from its reserves, however this still has a financial implication for the Council. As a result the bidders will be asked to factor into their



submission a cost of capital financing, which will be part of the evaluation to enable the whole life costs of the proposals to be evaluated and compared.

If bidders require any capital funding the Council will consider providing up to £20 million assuming that the scheme stays within the affordability limits, for which bidders will need to account independently the financing costs.

At this stage of the project the Council has identified the potential to borrow the capital identified above but it will be dependent on overall affordability at the time and subject to any changes in legislation, etc when the capital is required.

The affordability evaluation will be undertaken based on the capital being provided by the Council through prudential borrowing.

For any capital that is provided through prudential borrowing the following repayment costs should be clearly shown within bidders submissions.

- Based on interest rate of 3.63% with a 30 year term
- £59,378 per annum per £1 million borrowed

Thus if a bidder is borrowing £3 million then they should include a repayment of £178,134 per annum in their financial submission.

The actual interest rates (including the provision for MRP) which will be used for any borrowing will be determined at the time of drawdown, but for the purposes of evaluation bidders should use the above figures.

The Council anticipate that any capital investment schemes should deliver significant revenue savings in order to fund the capital investment required as set out above through prudential borrowing.

### **Data Room**

The Council has provided an electronic data room on its website that is available exclusively to Bidders. Access has been arranged separately for this.

The information provided in the data room has been prepared by the Council in good faith but does not purport to be comprehensive or to have been independently verified. Bidders should not rely on the information contained within the data room and should carry out their own due diligence checks and verify the accuracy of such information. Nothing in the data room is or shall be a promise or representation as to existing or future circumstances.

The Council reserves the right to supplement and amend information at any time during the bidding process. Bidders will be advised of any changes through email contact with an appointed representative of each Bidder.

### **Contract documents and key issues**

The project documentation used by the Council follows the Sport England Standard Form Design Build Operate and Maintain (**DBOM**) contract template, and represents the Council's position.

Bidders have been provided with the Contract in [[Volume 4] of the ISDS]. The Council reserves the right to make drafting amendments to the Contract during the dialogue phase and final tender periods.

The Council proposes to discuss the terms set out in the Contract during the dialogue phase and work with the Bidders to arrive at amendments acceptable to the Council provided such amendments are raised by Bidders and agreed by the Council prior to the final tenders period.

## **Risk**

The efficient allocation of risk between the Council and the Contractor is an essential part of a successful long-term relationship. For the contract to be a success, it is important that each element of risk is managed by the party best positioned to do so.

The Council has undertaken a preliminary risk analysis and the proposed share of risks between the Council and the Contractor has been reflected in the draft contract and the risk allocation matrix. Bidders should note that the risk allocation matrix must be read in conjunction with the Contract and that in case of any inconsistency between the Contract and the risk allocation matrix, the provisions of the Contract shall take precedence.

Where bidders propose using a sub-contract structure the Council expect a relevant pass-down of key terms to the sub-contractor. Details of sub-contract and interface arrangements will be discussed during dialogue.

## **Subcontracting Arrangements and performance guarantees**

The council's preference would be to enter into one contract with the provider of the Services rather than a special purpose vehicle. Sub-contractors are permissible and all key sub-contractors will be required to enter into collateral arrangements with the Council providing the Council with collateral warranties and step-in rights and to include the Authority's rights as a third party beneficiary of the sub-contract. It is assumed that the sub contracts will be entered into by the Contractor at the time of execution of the Contract, but if that is not the case, further details must be provided on timings. All contracting parties must be robust entities capable of taking on the obligations included within the relevant contracts. Where entities are not sufficiently robust, in the view of the Council, Parent Company Guarantees may also be required to support an entity's contractual obligations and liabilities.

## **Term of the Contract**

The term of the Contract is 30 years from commencement.

## **Annual Payment**

The Annual Payment (management fee) may be a surplus or deficit payment (ie a payment made by the Contractor to the Authority or the Authority to the Contractor) dependant on the agreed commercial proposals, and the Contract shall be adjusted to allow for either to occur.

Any Management Fee will be subject to inflationary increase based on CPI or an equivalent agreed index. The Council expects Bidders to deliver continuous improvement through annual efficiencies and innovation over the term of the Contract.

The Annual Payment should be presented as a profiled management fee in accordance with the tender submission, and will be paid (by the Bidder or Council) in 12 equal monthly payments

## **Benchmarking**

It is not proposed that there will be any income or expenditure benchmarking (other than utilities). If the Bidders believe they can offer better value for money through benchmarking then the Council would be willing to discuss this in dialogue.

## **Utilities**

The energy consumption at the Facilities will be at the Contractor's risk.

The Council recognises that energy prices can be volatile, but would still seek for the Contractor to take significant tariff risk. The Council is however willing to discuss proposed approaches to tariff risk during the competitive dialogue process.

### **National non domestic rates**

The Council's policy with regard to National Non Domestic Rates (NNDR), commonly known as Business Rates, is currently 80% mandatory relief. This would be granted if all the relevant charitable organisation criteria is satisfied. This is subject to policy change and as such bidders should complete their submissions based on 80% NNDR relief but recognise this may be subject to policy change. Bidders must propose models that can achieve this level of relief or better.

NNDR Relief may also be available where bidders adopt an alternative structure using a Not for Profit Distribution Organisation (NPDO). Bidders should clearly set out their proposed structure in this regard and confirm that they will be entitled to seek mandatory or discretionary rate relief as applicable to its legal status.

The Bidder will be expected to assume the risk of any changes in law relating to NNDR relief associated with an NPDO structure, and to guarantee that any changes in NNDR law will not affect the level of the management fee. If the Bidder is unable to accept this risk, the Bidder must make its tendered position clear, and such matters can be considered and addressed in relation to an alternative approach for discussion during dialogue.

### **Services Specification**

The detailed Services Specification, which set out the Council's requirements for the sport and leisure services at the facilities are available in the data room. These are not a pro forma and need careful consideration.

### **Surplus Share**

The principles of the proposed surplus sharing mechanism is:

Provision of detailed annual statements to the Council outlining any actual surplus levels achieved as measured against projected base target levels

Application of the mechanism on an annual basis through the Contract Period

The levels of surplus above those projected and agreed within the operator's base financial model will be shared between the Contractor and the Council on a 50:50% basis for every £1 excess achieved – unless agreed otherwise.

The Council welcomes bid-backs where the Bidders can offer alternative sharing ratios that better incentivise bidders to perform

### **Capital requirements**

The Council requires investment *in Andover Leisure Centre and also Romsey Rapids*

There has been a significant amount of work looking at the options for development and also the future business plans for these, which is in the Data Room, however bidders is asked to consider the most appropriate investment to deliver a commercial return.

It is recognised that the Council is asking for input on a number of options and as such at ISDS stage is seeking indicative plans and approaches to the capital to enable the Council to determine the most appropriate option to take forward to ISFT. Accordingly bidders should identify in their submissions any key provisional sums or areas of risk.

The Council do not have any other requirements for capital developments as part of the Solution.

However the Council is interested to explore Bidders proposals for capital investment in the optional Variant Solutions. It is expected any capital developments will be aimed at improving the service and revenues of the Facilities, providing a return on any investment.

The Council may have the potential to invest capital in the longer term as identified earlier and will want to assess the impact of the bidder providing capital and also the Council providing capital.

The Bidders proposals should assume that the contractor takes full risk on the delivery of the capital scheme(s) and the returns generated.

In relation to any capital developments Bidders are expected to provide a schedule of the equipment that they will provide together with a full breakdown of the costs associated with the provision and ongoing maintenance and renewal of such equipment.

### **Equipment**

An inventory of all existing equipment at the Facilities has been included in the Specification. Requirements relating to equipment upgrade and replacement is contained in the Specification.

### **Maintenance**

It is envisaged that that the Contractor will be expected to take full responsibility for all maintenance and lifecycle requirements relating to the Facilities. The Council expect the Contractor to manage the lifecycle fund for Capital Developments and to take responsibility for deficiencies in the fund.

### **Performance Monitoring System**

The Council intends to implement a Performance Monitoring System which is based on the Sport England DBOM template. This will be modified to allow for payment to be a surplus or deficit payment and for 'adjustments' rather than 'deductions' to be levied where there are availability or service standard failures to meet the Services Specification.

The Performance Monitoring System has been fully drafted and is set out in Schedule 14 of the Contract.

### **Insurance**

The Council intends to continue to take out property damage insurance for the Facilities. The insurances that the Contractor will be required to maintain are set out in the draft Leisure Management Contract. However, the Council is keen to discuss this during the Dialogue phase.

### **Title to the Sites**

The Council will provide the Disclosed Title Matters, the Replies to Enquires and the Disclosed Searches (as defined in the Contract). Bidders are responsible for performing title due diligence on viability of their proposals.

## **Leases**

It is envisaged that while providing the Services, the Contractor will have sole possession of the Facilities on a day-to-day basis. The Council intends to grant the Contractor leases and/or under leases in respect of the relevant Facilities, subject to any VAT and NNDR considerations.

The envisaged form of lease which has been included in the Contract is designed to be viewed in the context of the Services as a whole and not as a stand alone commercial lease, for example the maintenance and termination provisions in the lease will be linked to the Contract.

## **Employment and Pensions**

The Council considers that TUPE will apply. If TUPE does apply, those employees of the Council's existing service provider assigned to the provision of services at the Facilities may become employees of the successful Bidder on their existing terms and conditions of employment.

Under TUPE, there is an obligation to consult with recognised trade unions, professional associates and employee representatives about any likely consequences for staff (ie "measures") and the successful Bidder will be expected to provide all necessary information required by the Council's existing service provider to meet those obligations. "Measures" is usually given a wide interpretation and the successful tenderer is required to take this into account when collating information on measures.

Bidders are advised to seek their own professional advice in order to form their views on the question of TUPE and should specify the view that they have taken together with the reasons for that view.

Staff transferring from the Council must, in accordance with the 2007 best value authorities pension direction, be given a third party right to enforce their pension protection against the contractor/sub-contractors

## **Surveys**

The Council has commissioned condition surveys which bidders will be asked to comment on and it is expected that the warranties will transfer to the successful bidder for the condition survey if appropriate.

Bidders will have to satisfy themselves in relation to the extent of the surveys carried out. The risk in inherent defects in existing facilities which is not revealed and which could not have been revealed in the condition surveys will rest with the Council, all other responsibility sits with the contractor.

If any bidder wishes to commission any additional surveys or studies for the purpose of preparing their bid, then they must submit in writing their full proposals to the Project Manager. Bidders should not proceed with any additional surveys or studies unless the Council has given approval in writing. Any such surveys or studies will be taken at the bidder's own costs and risk unless agreed otherwise.

## **FINANCIAL ASSUMPTIONS**

We set out below the key financial assumptions bidders should use in their submission

- Bidders should provide an [average/profiled] Annual Management Fee
- Bidders should price the energy costs based on the tariffs (as set out in the data room), but are able to make their own assessment of the likely consumption, which will be used as the baseline position in the contract
- Bidders should include within their submission the financing costs for the capital

- Bidders should not change the format of the pricing sheet, (document; Supplier Response – Appendix A - Pricing Tables). If Bidders need to clarify where expenses or income are allocated then additional notes should be made in the sheet
- The mandatory bid should be based on the TUPE list provided
- Buildings Insurance for the facilities will be retained and procured by the Council. All other insurances will be the responsibility of the Contractor

## Section 4 – Background to the Council and Facilities

Test Valley covers 62,758 hectares on the western-side of Hampshire; the borough borders Berkshire to the North, Wiltshire to the West, and the New Forest and Southampton to the South. The Borough contains a mixture of urban, semi-urban and rural areas, with a large proportion of residents living in either Andover or Romsey, or in smaller towns and villages scattered across the Borough.

Test Valley Borough Council consists of 48 elected Councillors representing 24 wards. 38 Borough Councillors are members of the Conservative Party who are the Majority Group at the Council. 9 Borough Councillors are members of the Liberal Democrat Party who form the Council's Minority Group, and 1 Councillor is Independent.

Test Valley has 59 Parish areas. Each Parish Council comprises a number of elected (and possibly some co-opted) Councillors.

The population of Andover is currently 46,298 people and is set to increase to 49,784<sup>1</sup> people by 2019, an increase of 7.5% or 3,486 people over the next four years. The population of Romsey is 14,839 people and is set to increase to 15,176 people by 2019, an increase of 2.2% or 337 people over the next four years.

The borough is estimated to see its population increase as a whole from 121,783 in 2015 to 126,731 in 2019.<sup>2</sup> The number of households within the borough is estimated to increase from 51,263 in 2015 to 53,818 in 2019. As such Test Valley is experiencing significant change and development over the next four years.

Test Valley has a range of facilities which are accessible to residents; these include The Lights Theatre, the Odeon Cinema, Andover Leisure Centre, Charlton Lakeside and Finkley Down Farm at Andover. Two new large outdoor sports facilities are being provided at Augusta Park and Picket Twenty.

Serving Romsey there is The Plaza Theatre, Lantern Theatre, Romsey Rapids, Romsey Sport Centre and Hunts Farm which serve the town. These are complemented with recreation facilities at North Baddesley, Nursling & Rownhams and Valley Park.

The main sports centres and pitches are located at Andover, Romsey, North Baddesley and Valley Park. There are additional local facilities such as children's play equipment and informal recreation areas and parks serving these areas and the other settlements in the Borough. Most of these are controlled by Parish Councils. Meeting the future recreation needs of the Borough's population will be a key issue.

In Andover the Council has recently acquired the Former Magistrate Court site next to the Andover Leisure Centre. The Council is currently working up proposals for it's future. Although the

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<sup>1</sup> Hampshire County Council, Small Area Population Forecast 2014.

<sup>2</sup> Hampshire County Council, Small Area Population Forecasts 2014.

business case is being worked up separately, given its proximity, it may be that bidders explore the viability and potential synergy with development at this site.

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