

Report to: Executive and City Council

Report By: Head of Community Services

Date: Tuesday 22 February 2005

Mountbatten Redevelopment

1. Executive Summary

- 1.1** Against a background of reducing budget allocations to leisure and increasing capital investment requirements at Mountbatten, Victoria Swimming Centre and Hilsea Lido, the City Council now faces choices for how best to deliver a safe, efficient and appropriate sporting infrastructure for the City for the future.
- 1.2** The Mountbatten redevelopment scheme has been a long time in its development but has been successful in securing an allocation of £5.49m from Sport England – the largest award in principle for a 50m pool. The scheme is innovative in that it provides a mix of facilities that will enable and promote effective partnership working and the delivery of key outcomes in line with community priorities. Key partners include the Primary Care Trust, Community Action Network, Sport England, Governing Bodies of Sport and local sports groups. The project comprises a regional 50m swimming pool, health and fitness studios as well as improvement to existing facilities. 85% of its programme will be dedicated to community use. Extensive consultation has been undertaken with local residents, sports groups, users and governing bodies.
- 1.3** The City Council, today, is being asked to agree to progress the Mountbatten project to its next stage of development (Receipt of bids and preferred bidder identified) at a cost of £1.25m to the Council (including current expenditure approvals of £375k). Although the final decision to approve the full scheme will not be taken until financial close in June 2006, in effect by approving progression to the next phase, Council will be giving the project a very positive endorsement.
- 1.4** However, should the Council decide not to approve the Mountbatten scheme it will not mean the end of debates about the future of the sporting infrastructure in the City. There remains significant costs just to make safe the facilities the City owns. In summary, to undertake basic maintenance at the Mountbatten Centre and Victoria Swimming Centre over the next 25 years will cost in the order of £7.6m. Management fees are also projected to increase because of the poor state of buildings and the subsequent impact on income and attendances. Of course this level of investment in maintenance will not result in increased attendances rather it will maintain them at current levels, thereby income levels will not increase
- 1.5** As part of a City wide strategy and the first phase of a facility rationalisation programme, the City Council has been very successful in attracting external

funding and developing local new facilities like those at St Lukes School, Wymering Community Sports Centre, Highbury College, Admiral Lord Nelson School and most recently at Priory School.

- 1.6 The Mountbatten project seeks to further this strategic rationalisation of identified sports facilities and includes potential implications for the Mountbatten Centre; Victoria Swimming Centre, and Hilsea Lido Main Pool. Due to the lack of ongoing maintenance and repair and despite significant efforts from contractors attendances have declined from 682,137 attendances in 1998 to 599,598 attendances (and thereby income) in 2004 (see Appendix 1).
- 1.7 Should the Council decide not to rationalise the facilities, it is understood that the Sport England grant will be withdrawn.
- 1.8 It is recognised that this is a very difficult decision for the Council. The Mountbatten scheme will draw down a significant proportion of the capital budget; it will result in the closure of sub standard facilities and could initially mean increased revenue costs although the annual charge will fall year on year (subject to benchmarking every 5 years). A comparison between the Mountbatten project and continuation of current facilities identifies that the Mountbatten project is the cost-effective option. The Mountbatten scheme offers the City a chance to be aspirational for its future; to demonstrate a strategic vision for its sporting infrastructure and will make a significant contribution to community priorities.

2. Recommendations

- (a) Members are recommended to approve the Mountbatten Centre Project in principle on the basis of the projected capital cost of £23.6m (including a client contingency sum on building costs of £1.8m) but that work take place to seek to contain project costs within the identified £21.8m
- (b) That capital funding of the project be in accordance with the proposals as set out in paragraph 6.8 of the report.
- (c) that the revenue costs set out in paragraph 7 be noted subject to the receipt of final bids
- (d) agree authority to incur preliminary expenditure of £1.25m for this project be delegated to the DECCS in consultation with the Executive Member for Culture and Leisure in order to progress the project to receipt of bids and identification of preferred bidder.
- (e) Members support the facility rationalisation proposals on the understanding that Hilsea Lido Main Pool and Victoria Swimming Centre be retained until the Mountbatten Redevelopment is operational (noting the PRED decision that a planning brief be prepared for the Hilsea Lido site which must include a requirement for a public

accessible swimming facility). Should there be a need for significant investment in maintenance works over and above essential maintenance provision then premature closure of the affected facility would occur.

3. Background

3.1 In the early 1990s, Portsmouth City Council approved a swimming development strategy for Portsmouth for the decade to 2000. The Council resolved to:

- Provide a 50m flexible-use community pool at the Mountbatten Centre, when resources allow
- Review the long-term future of the Victoria Swimming Centre
- Build a 25m pool in the north of the city and close the Halsea Lido

3.2 The proposals are linked directly with the City's Community, Cultural and Sports & Physical Activity strategies, as well as the Area Investment Framework. The Cultural Strategy, for example, states its first objective to be "to transform and invigorate Portsmouth's cultural infrastructure." The Sports & Physical Activity Strategy identifies the Mountbatten Centre as the hub of a neighbourhood network of local community sports and leisure facilities, which has been developing for several years. This strategy is aligned with central government's vision, detailed in the 'Game Plan' report and with the Regional Sports Board plan, entitled 'Mission Possible'. The proposals also link to DOH's "Choosing Health and Choosing Physical Activity" Reports.

3.3 Between 1996 and 2000, Sport England and the Amateur Swimming Association developed a national strategy for the provision of 50m pools. The strategy included the funding of 8-10 flexible-use 50m community swimming pools. The cities identified were: Bath, Loughborough, Manchester (all completed); Portsmouth, Liverpool, Leeds, Sunderland (all Sport England Award confirmed); London (Aquatics centre proposed as part of LONDON 2012); Newcastle (application withdrawn); Birmingham (Sport England application being developed). Portsmouth has received the largest grant-in-principle, of £5.49M.

3.4 Throughout the late 1990s, the first stage of this long-term strategy to rationalise the city's sporting infrastructure was being implemented. Portsmouth has been very successful in attracting funds from the Sports Lottery Fund (7th out of 352 local authorities) and for a City Council contribution of £600,000, the City has attracted £6.4m. Major investments included Admiral Lord Nelson School (£2M), St Luke's Community Sports Centre (£2.5M), John Pounds Healthy Living Centre in Portsea (£7M), Highbury College, Wymering Community Centre and Priory School (c£3.6M).

3.5 In September 2002, the Audit Commission reported on the Best Value review of the Council's Recreation team and services, and strongly supported the

Council's proposed strategy. A number of key recommendations were put forward, including:

- “Make sure that the improvements proposed by the facility rationalisation strategy are secured, by:”
 - “Ensuring that the council make the critical decisions regarding its aged assets;”
 - “Ensuring that key decisions are made by the council in sufficient time to take advantage of external funding opportunities.”

- 3.6** In November 2002, the Council supported the application to the Sports Lottery Board and the application was submitted to the Lottery Sports Fund in December 2002. The bid proposed the delivery of a flexible use community pool with ancillary facilities and a facility rationalisation programme.
- 3.7** In January 2003, Sport England placed a moratorium on all lottery awards, for eighteen months and de-committed on a number of projects.
- 3.8** In early 2004, the International Olympic Committee (IOC) made it clear that the future ‘legacy’ of the 2012 games would be a key factor in the assessment of the UK’s London bid. In short, bidders have to demonstrate the impact on the development of sport of hosting the Olympic Games.
- 3.9** IOC delegates will visit the UK in February 2005 to assess the bid, before announcing their decision in July 2005. They will be assessing training camp infrastructure as part of this visit: the Mountbatten Centre is included for consideration as a training camp for 2012. Indeed, even if the current favourite Paris is successful, there would be opportunities for south coast venues to provide the training needs of the 202 Olympic nations.
- 3.10** Sport England has redeveloped a national strategy to respond to the Olympic bid and has created an Olympic Fund. Their central aim is to create “multi-activity sports centres/environments”, as proposed for this city at the Mountbatten Centre.
- 3.11** In September 2004, having examined Portsmouth’s business and strategic need plans, the Sports Lottery confirmed a Stage Two Development Award of £5.49M.
- 3.12** Sport England have made it clear that as “funder of last resort”, they expect a strategic rationalisation of local facilities. Other cities in receipt of Sport England funding are also closing old and tired facilities as part of an identified strategic approach to address long term sustainability (e.g. Manchester, Leeds, Liverpool, Sunderland). The proposed facility rationalisation in Portsmouth has already involved wide-ranging consultation with local residents and responds effectively to issues arising from the Audit Commission Inspection of Recreation Services in August 2002.

4. The Mountbatten Project

- 4.1** The long-term vision for the Mountbatten Centre complex (as outlined in the Sports Strategy) is to provide a new, “fit for purpose” regional 50 metre *community* swimming pool, health and fitness studios, catering and bar suites as well as improvements to the existing facilities (e.g. main hall, athletics and cycle tracks), which are now over 20 years old. The revitalised Mountbatten Centre will be the hub of a sustainable network of community sports centres.
- 4.2** The Mountbatten facility would be fully accessible to the whole community and the development would make the facilities compliant with requirements of the Disability Discrimination Act. The 50m swimming pool has been designed to fulfil a local and regional need, in line with local Sports Strategy, regional swimming strategy and Sport England requirements. Whilst catering for the needs of local elite users (e.g. Swim Portsmouth and Portsmouth Northsea), and regional swimming events, 85% of use of the proposed swimming pool would be for community use and this would be facilitated through the use of a moveable boom and floor, providing flexible swimming spaces in which to programme an extensive and appropriate range of water activities in response to local needs.
- 4.3** In line with the recently published “National Framework for Sport” and the Governments sports strategy, “Game Plan”, the Mountbatten Centre will actively promote:
- (a) The establishment of multi-skills fun clubs for 5-16 year olds in line with the Long-term Athlete Development concept.
 - (b) A ‘super club’ administrative structure, based on the European model, will work with the key National Governing Bodies (NGB’s) and local clubs such as Portsmouth Northsea Swimming Club, Portsmouth and Havant Athletics Clubs and Portsmouth Joggers.
 - (c) A training centre for improving the volunteer programme: linking professionals and volunteers to enhance and sustain local voluntary sector capacity as participation/performance grows.
 - (d) Fully integrated management e.g. sports development outreach workers linking to LEA/FE/HE/Health/Youth justice: this will be a component of the contract specification for any operator.
 - (e) Training centre for a new ‘breed’ of multi-skilled, generic sports workers, rolling out best practice; with links to the School Sports Co-ordinator and Specialist Sports College (not just sports specific).
 - (f) ‘Evidence-based’ research will drive the management philosophy. Already, a researcher has been recruited and is working as part of a pilot project with Sport England, the city council and the University of Portsmouth looking at the impact of sporting initiatives in the city.

- 4.4 Ultimately, if finances permit, it is also intended to relocate the existing gymnastic centre from Pitt Street and the Indoor Tennis Centre from the MoD site at Burnaby Road to the Mountbatten centre.
- 4.5 This will then create a centre catering for residents of all ages and abilities; this has been the basis of discussions with potential private sector partners, Sports Lottery officials, as well as with the local community.
- 4.6 In the light of current levels of financial support it is proposed that the project be phased. The first phase will focus on the 50 metre swimming pool, health and fitness studios, bars and catering suites and the refurbishment of existing facilities (Main Hall floor and lighting; Athletics and Cycling tracks). Annual lifecycle costs have also been budgeted as part of the business plan and will support other refurbishment and upgrading work as subsequently agreed with the Private Sector Operator during the lifetime of the contract. Outline planning permission was obtained in June 2003 for phase 1. It is projected that over 1 million users p.a. will enjoy use of the new facility. A further 1 million users each year are also projected to enjoy opportunities provided through the city-wide “partnership” network of sports and physical activity facilities linked to the Mountbatten Redevelopment. Sports and physical activity development work will form a key part of contractual arrangements with the successful management operator.
- 4.7 In addition to the strong and broad-based support from the sporting and non-sporting sectors, as demonstrated in the original Mountbatten lottery application, the project is now also supported by Community Action Network (CAN) which is establishing a series of centres of excellence for their work around community engagement and empowerment and also for the development of a number of ‘social enterprises’ linked to the centre: sporting businesses within the overall Mountbatten business, e.g., ‘super clubs’.
- 4.8 The Primary Care Trust will partner the City Council in developing the centre as a ‘hub’ of their health and well-being work focussing on the ever-growing preventative agenda.

5 Sport England

- 5.1 In September 2004, Sport England confirmed a Stage Two Development Award of £5.49M
- 5.2 The award letter received from Sport England in September 2004, identifies that Sport England require a number of issues to be resolved before a final funding decision can be made, but it does **consider that the Project demonstrates sufficient potential to receive a "Stage Two Development Decision"**.
- 5.3 This is the typical approach that Sport England takes in awarding lottery projects “Stage Two Development” status. Since September 2004, meetings have been held with Sport England representatives (see Appendix 2) and a formal action plan is agreed which identifies key issues that will need to be

resolved prior to receipt of a “Full Award”. Although the Action Plan is more complex than with other city lottery awards, the principle is the same.

- 5.4 Sport England strongly support the project and wish it to be a model "multi activity centre/environment" project that can be rolled out nationally. There is however a need to ensure that Sport England see the continued commitment of the City Council in delivering key outcomes from the project (e.g. increased participation/health outcomes; education links; community safety outcomes).
- 5.5 In the meantime any work undertaken to progress the project will be at the risk of the City Council. Although at this point in time no guarantee of a “Full Award” can be given, some comfort is provided through past successes in developing projects from a “Stage Two Development Award” to a “Full Award” (current success rate for Portsmouth is 100% - see attached details in Appendix 3).

6. Mountbatten Centre Capital Costs and Project Financing

6.1 On 28 November 2002 the Executive endorsed the Mountbatten Centre and approved the application to the Sport England Lottery Fund.

6.2 At that time the capital cost of phase 1 of the scheme was estimated at £18m, financed by,

- private sector borrowing	£8.5m
- Sport England capital grant	£5.5m
- PCC contribution	£4.0m

Total	£18.0m
	=====

6.3 The £4m PCC contribution represented an increase of £2.5m over the originally budgeted amount of £1.5m and was to be funded by a mixture of future capital receipts, uncommitted capital schemes or revenue contributions.

6.4 The resolution of the Executive stated that ‘funding sources be reviewed when the lottery funding is confirmed and the availability of capital funding from the single capital pot, capital receipts and prudential guidelines is known.’

6.5 Since November 2002 slippage in the project approval process has resulted in the predicted capital costs increasing to £23.6m (including a client contingency on projected building costs of £1.8m). The details are provided in Appendix 4. However the delay in the project has also provided an opportunity to review the potential sources of finance and the associated procurement options.

6.6 In 2002 under the Capital Finance Regulations prevailing at that time the City Council was severely constrained by the amount of borrowing it was authorised to commit. It was therefore necessary and expedient to require the private sector service provider to borrow funds (£8.5m) on commercial terms

and for the Council to indirectly repay the debt by payments to the contractor linked to the performance of the contract.

6.7 In April 2004 the Government introduced a major relaxation in the control of local authority borrowing (prudential guidelines). There was now a more flexible regime based on the individual authority's ability to repay debt and the affordability to the Council taxpayer of each project. As a result, the City Council compared the cost and risk of obtaining project finance from the private sector with direct borrowing. The conclusion was that the City Council had access to cheaper borrowing than the private sector but that there was an increased risk to the City Council that would need to be strictly managed during the procurement process. By removing a requirement on the private sector to raise funds it is likely that there will be increased market interest from leisure operators where there are comparatively few contractors with experience of raising commercial loans. The City Councils' legal, financial and project management consultants all agree that subject to the appropriate contractual arrangements that direct City Council borrowing is the preferred procurement measure.

6.8 The City Council's capital resources have been reassessed as part of the overall financing of the capital programme for 2005/06 onwards as reported elsewhere on this agenda.

It is therefore now proposed to provisionally finance the estimated capital cost of £23.6m as follows;-

- Sport England capital grant	£5.49m
- PCC - Prudential Borrowing	£5.00m
- unallocated capital resources	£5.46m
- further identified capital receipts	£7.65m

Total	£23.6m
	=====

A further review of the available capital resources will be undertaken in September 2005 after the receipt of tenders from private sector operators when the financial position of the scheme will be clearer.

6.9 It is now proposed to move to the next stage of the procurement and seek firm bids from potential private sector operators. This process will validate the cost and demand forecasts and demonstrate whether bids are affordable. The project manager expects to invite bids by September 2005 followed by a more detailed bid analysis leading to appointment of a Preferred Bidder in December 2005.

6.10 The cost of progressing to this stage is £1,250,000 and approval is sought to commit this sum to enable the scheme to progress.

6.11 The marginal cost of borrowing is £92.5k per £1m and could be averted if the amount borrowed was reduced.

- 6.12** The initial capital budget costs were produced by QS Davis Langdon and Everest as part of a commission with S&P Architects. Their outline proposals and costings have since been interrogated by an internal peer group team and more recently by the designate new Design and QS team - FaulknerBrowns with QS, Gleeds .
- 6.13** The project is currently at a very early stage in its design development and many refinements are anticipated during the next phase, which will include further consultation with local residents, sports clubs, private sector operators and Sport England.
- 6.14** Based upon early concept sketches and historic outturn costs from other similar projects, FaulknerBrowns and Gleeds advise that a construction budget of £18.35m plus client costs and client contingency, is sufficient to deliver a regional 50m pool and associated facilities, subject to a full appraisal of project risks. The building costs contain an initial contract contingency of 3%. Faulkner Brown advise that in addition to the building costs it would be wise to identify an additional client contingency budget of between 5 and 10% of the building budget. They advise that this may or may not be used. An additional client contingency of £1.8m has been included on this basis.
- 6.15** In addition to the building budget and associated building contingency are direct client costs (e.g. Professional fees; external Project Management; Project Consultants; Internal fees). The client costs are projected to be £3.44m and include an additional contingency sum of 5%. The total projected project budget (including all contingencies) is therefore identified as £23.6m. Work would be progressed however, to seek to contain costs within the identified project budget of £21.8m (i.e. no use of building contingency).
- 6.16** Early in the next phase (and as part of further detailed design work by the Design Team following their appointment) Risk Management Reviews will be undertaken to further identify project risks, cost these risks, and define the best method of management of these risks. All major projects like that of the Mountbatten Centre contain risk and at this stage no guarantee can be given that costs will not increase although work will take place to seek to contain costs within identified budgets, if necessary by rescoping elements of the project with approval of other project partners (e.g. Sport England).

7. Revenue Costs

- 7.1** The key consideration in the evaluation of any capital project is the ongoing revenue costs in comparison to the cost of the facilities that they are replacing. This is especially true on services that are intended to generate significant income from fees and charges and are susceptible to changes in demand, perception, lifestyle and competition.
- 7.2** Therefore the City Council has commissioned its leisure and financial advisers to forecast revenue costs based on a wide range of assumptions from 'best' to 'worst' case. The projections are informed by market experience and by

detailed demand modelling. **Actual costs will only be firm after receipt of tenders and financial close** (currently scheduled for June 2006 and subject to benchmarking every 5 years).

7.3 Further to this assessment, the predicted net revenue costs of the scheme are as follows:

	First Year £,000	Third Year £,000	Fifth Year £,000
Business Performs Well			
Operator bid			
- operating surplus	(540)	(540)	(540)
- lifecycle costs	560	560	560
- SPV costs etc.	120	120	120
PCC costs			
- Borrowing costs	800	770	740
	-----	-----	-----
	940	910	880
	=====	=====	=====
Business Performs Averagely			
Operator bid			
- operating surplus	(440)	(440)	(440)
- lifecycle costs	560	560	560
- SPV costs etc.	120	120	120
PCC costs			
- Borrowing costs	800	770	740
	-----	-----	-----
	1040	1010	980
	=====	=====	=====
Business Performs Poorly			
Operator bid			
- operating surplus	(330)	(330)	(330)
- lifecycle costs	560	560	560
- SPV costs etc.	120	120	120
PCC costs			
- Borrowing costs	800	770	740
	-----	-----	-----
	1150	1120	1090
	=====	=====	=====

7.4 Assumptions about the levels of income to be achieved are based upon the number and price of swims, usage of the health and fitness suite and the ancillary spend on bars and catering etc.(see further information in Appendix 5). Running costs, for example staffing, energy and rates are based on market experience and unit cost indicators in the leisure industry.

7.5 Modelling a large range of assumptions suggests that the net operating surplus (income less running costs) would fall within the range of £330k per annum to £540k per annum depending on whether the facilities perform poorly or well. The average value of this range is around £440k per annum and this has been used in the financial projections.

7.6 Statistically there should be a high probability that the operating surplus will fall within this range, but it must also be recognised that in the very worst case

(no demand) or the very best case (high demand and high charges) that the surplus could fall outside of this range. (Note: The addition of “Borrowing”, Special Purpose Vehicle (SPV), and Lifecycle costs transform the annual costs into a deficit. Annual costs will be highest in the first year and are then expected to fall year on year thereafter (subject to benchmarking every 5 years).

7.7 The net revenue costs will be met by rationalising existing facilities that are outdated and inefficient. The annual savings are as follows:

	£'000
- Mountbatten Centre	311
- Victoria Swimming Centre	252
- Hilsea Lido Main Pool	50
- Leisure Card/G.P. referral scheme	63
- Landlord maintenance funds (note 1)	168

Total Potential Budget	844
	=====

Note 1; The transfer of funds from the Landlords Maintenance budget (as agreed by the Executive in Nov 2002 and related to current landlord expenditure at the Mountbatten, Victoria Swimming Centre and Hilsea Lido Main pool) assumes that the cost of maintaining existing facilities at Mountbatten, Victoria Swimming Centre and Hilsea Lido Main pool is averted as part of the rationalisation programme.

7.8 It is noted that projected revenue costs (including borrowing costs) currently exceed identified revenue funds. The shortfall will be resolved as part of the medium term budget strategy.

8. Alternative Options Appraisal

8.1 Work has been undertaken to understand the financial implications of the potential alternatives to the Mountbatten Redevelopment, including:-

- A. Carry on doing the minimum
- B. Continue with current facilities but invest £7m to address issues and make the centres attractive in the marketplace
- C. Continue with current facilities but invest £10m to address issues and make the centres attractive in the marketplace
- D. Mountbatten Redevelopment Scheme

8.2 A summary of capital investment identified through each option (including that of the proposed Mountbatten Redevelopment) is provided below;-

	Option A Do Minimum £'000	Option B Invest £7m £'000	Option C Invest £10m £000	Full Scheme Capital £23.6m £'000
Capital Investment				
- PCC – Prudential Borrowing	4,650	7,000	10,000	5,000
- PCC – unallocated capital resources	0	0	0	5,460
- PCC – further unidentified capital receipts	0	0	0	7,650
- Sport England Grant	0	0	0	5,490
Total Capital Cost	4,650	7,000	10,000	23,600

8.3 Revenue implications in Year 1 associated with each option as below;-

	Option A Do Minimum £'000	Option B Invest £7m £'000	Option C Invest £10m £'000	Full Scheme Capital £23.6m £'000
Revenue Costs (Full Year)				
- Operating Costs/(- Surplus)	613	213	13	-440
- Life cycle/maintenance	168	560	560	560
- SPV costs	0	120	120	120
- Debt servicing	153	648	925	800
Total revenue costs	934	1,541	1,618	1,040
<u>Costs Over 25 Years</u>				
- Cash	38,933	40,856	38,462	24,567
- Net Present Value	24,916	27,137	25,951	16,671

8.4 Revenue implications over a 25 year period associated with each option are as below:-

	Year 1	Yrs 2-5	Yrs 6-10	Yrs 11-25	Total
Option A Do Minimum	£934k	£4.763m	£6.832m	£26.405m	£38.933m
Option B Invest £7m	£1.541m	£6.142m	£7.748m	£25.426m	£40.856m
Option C Invest £10m	£1.618m	£6.294m	£7.603m	£22.947m	£38.462m
Full Scheme Capital £23.6m	£1.040m	£4.130m	£4.968m	£14.429m	£24.567m

8.5 A full comparison of capital and revenue costs with explanatory notes is provided in Appendix 6. Although Option A is cheapest in the immediate short term, this option is identified as **not sustainable** in the long term and ultimately will cost the city council more than the proposed Mountbatten Redevelopment.

8.6 Over a 25-year period, the Mountbatten Redevelopment (including the wider facility rationalisation) is the most cost effective option with a predicted operating surplus based on prudent assumptions offsetting borrowing costs. This option averts all maintenance liabilities on the identified existing buildings in the longer term.

9. Facility Rationalisation Programme

9.1 A programme for the management of the sports and leisure facility rationalisation programme is provided in appendix 7.

9.2 This programme seeks “continuity of use” through services provided at the Mountbatten Centre, Victoria Swimming Centre and Hilsea Lido until the redeveloped Mountbatten Centre is operational. Prior to completion of the Mountbatten Centre Redevelopment and in line with current practice, it is intended that only essential repairs to Victoria Swimming Centre and Hilsea Lido Main Pool will be undertaken. Should a major maintenance failure be experienced at one of these facilities during this period, it is assumed that the facility would close prematurely. Details of identified maintenance issues are provided in Appendix 8.

9.3 For the next stage, a Communications Plan will be devised and implemented. The plan will seek to promote a good understanding by the local community and key partners of the rationale that underpins the Mountbatten Redevelopment scheme including:-

- a) the social and economic rationale of the decision
- b) the potential future use of the facilities being disposed of
- c) the relocation of the regular users eg to the MC

- 9.4** Confirmation of the specific timing of the rationalisation programme will form part of the formal tender process. Bidders will be advised of the City Council's preference for continuity of use and will be requested to provide a costed method statement as to how they will approach management of this programme. The bidding process will also seek any potential additional transitional costs (e.g. additional costs incurred because of development work taking place on the operational Mountbatten site/ cost of redundancies if this is necessary).
- 9.5** A detailed profile of revenue costs is set out in Appendix 7 showing the net cost of the transitional arrangements as existing facilities are closed and the new facilities become operational. These figures indicate that from 2008/09 when the new development opens there is a reduction in the net operating costs of the service but this is offset by the cost of borrowing. These costs will be reflected in the medium term resource strategy projections.
- 9.6** Although all the income and expenditure predictions are the result of a thorough study by leisure industry experts the firmest indications of cost will only be available when bids are received from potential private sector operators.

10. Consultation

- 10.1** Development of the Mountbatten centre project (including the proposed facility rationalisation) has involved widespread consultation and has included the following groups; -
- Meetings with local residents
 - City of Portsmouth Sports Council (including representation from Athletics; Badminton; Cycling; Martial Arts; Synchronised Swimming; Tennis)
 - Portsmouth Disability Forum
 - Black & Ethnic Minority Groups
 - Portsmouth Northsea Swimming Club
 - Swim Portsmouth
 - Amateur Swimming Association
 - Sport England
 - Portsmouth Society
- 10.2** The groups have demonstrated good support for the project.
- 10.3** Additional information about "Frequently Asked Questions" about the project is provided in Appendix 9.
- 10.4** There have also been study visits to the following 50 metre swimming pools in order to ensure that, where feasible and within budgets available, emerging designs incorporate best practice; -
- Dublin
 - Manchester

- Swansea
- Loughborough

11. Project Procurement

- 11.1** At the outset of the project an options appraisal was conducted by Nabarro Nathanson to establish the most appropriate procurement vehicle to deliver the project. This took into account the City Councils experiences of large procurement projects and current industry best practice. Vehicles considered were a Joint Venture, Conventional PFI and Public Private Partnership (PPP). Due to the unlikely possibility of obtaining PFI credits for the project and the significant legal complexities of a Joint Venture the recommended option was to adopt a PPP on the basis of a Design, Build, Operate and Maintain contract.
- 11.2** As part of the Audit Commission Inspection of Recreation Services in August 2002 the project management process was scrutinised and the report highlighted that it was “good”.
- 11.3** In October 2003 advice was sought from District Audit about the procurement process for the Mountbatten Centre who again confirmed that the city councils approach was appropriate. Furthermore, the current procurement process is supported by all external advisors as the most appropriate for this project.
- 11.4** As part of a Design Build Operate and Maintain (DBOM) contract, the project will continue to be “Operator” led which is key to providing long term benefits through ensuring that the final design, construction and operation is as appropriate and cost effective as possible. This approach contrasts with the “normal” developer led process, with the operator coming into the project much later and being “saddled” with a building into which they have not had any input.
- 11.5** Tender documentation is being developed although considerable work remains to be completed in order to ensure that the documentation is robust and appropriate. The form of documentation being used is considered to be “model” documentation in the sports and leisure marketplace by the “4Ps” (a body set up by the LGA to offer procurement advice to Local Authorities) and the project external consultants. A key objective will be to achieve the best value for money bid which delivers the city council’s objectives and sporting gains for the best price. The City Council will consider the value for money aspects in determining the length of the contract, the treatment of lifecycle costs, benchmarking and risk sharing. It is proposed that the procurement approach will:
- highlight and ensure the design, build, operate and maintain (DBOM) approach for 25 years but also reflect that as part of the tender documentation the bidders should provide prices for 10 years and 15 years to assess if there are any value for money benefits for a lesser time period

- ensure that bidders will be asked to consider the inclusion of additional facilities as part of the scheme (e.g. Skatepark; Tennis Centre; Gymnastics Centre relocation)
- ensure that the bidders will be asked to identify any additional commercial opportunities for development on the site (for example specialist retail, childcare which could provide improved value for money to the city council)
- ask bidders to propose options for risk sharing the lifecycle costings and indeed any more advantageous benchmarking arrangements

12. Risk Management

12.1 Complex projects like the Mountbatten Centre Redevelopment always contain risk. Discussions have taken place with project consultants to identify and clarify the management of risk associated with the Mountbatten Centre project. Risk management adopted for the Mountbatten centre supports the principle that specific identified risks should be positioned with the partner best placed to manage it. This provides for the most cost effective management of risk. Of course, some risk can of course be transferred to the private sector partner but if unreasonable this will result in cost increases, as the private sector will “price” for this risk.

12.2 In line with corporate policy, a project risk register is in place. Risk management will continue to be developed and advice will be sought from appropriate project consultants to ensure that management of risk is as robust as possible. Tender documents will specify the preferred division of risk but members should note that risk management will be a continuous part of the project process. As with all other major projects, the profile of risk will undoubtedly change as part of the formal negotiation process but, again, will be managed in a pro-active way.

12.3 A comparison of risks between the Design Build Finance and Operate (DBFO) and the preferred procurement route of Design Build Operate and Maintain (DBOM) is provided in appendix 10. In order that risks are mitigated satisfactorily, the City Council will seek to confirm additional self-help remedies to act as incentives on the contractor to ensure timely compliance with the city council’s requirements and to ensure delivery (e.g. imposition of reductions in relation to poor service; right to carry out surveys to ensure maintenance obligations are being met; right to terminate the Contractor in the event of material or persistent breaches).

13. Project Management

13.1 The Mountbatten Centre Redevelopment is a highly complex project demanding significant project management skills. A Project Review Board in line with corporate project management policies, has been supporting the Mountbatten project since September 2003. The Project Review Board has

members who have significant experience in delivering large capital projects (e.g. PFI scheme for Milton Cross School).

- 13.2** At the heart of the project is a Core Project Team lead by the Head of Community Services supported by a team of specialist City Council officers. The ECCS team has an excellent reputation in project management through the delivery of major successful projects like the Tour de France, the Special Olympics National Games and the numerous facility projects successfully completed with lottery support and located throughout the city.
- 13.3** Already supporting the project are 4 firms of nationally recognised specialist advisors:
- PMP (financial and leisure management)
 - Bevan Ashford (legal)
 - S&P Architects (1st phase commission completed)
 - Hornagold & Hills
- 13.4** S & P Architects successfully completed their first stage commission to develop designs to outline planning stage and also for use as part of the Sport England Lottery application. Following a competitive process for the remainder of the project, the internationally acclaimed Design company - Faulkner Brown – have been identified as the “designate” Design Team subject to Council decisions to progress the project to the next phase.
- 13.5** Hornagold & Hills has been identified as the successful Project Management organisation but their commission will not start formally until the City Council approves the project. Hornagold & Hills have already engaged with the Core Project Team to provide specialist support in key areas (e.g. risk management) and have been briefed to enable them to enter the project fully prepared. Background details about Hornagold & Hills are provided in appendix 11.
- 13.6** Furthermore, further advice has been provided by the 4 P’s and Sport England. Given the projects potential to be a pioneering partnership approach, they will continue to offer that support as the project develops.
- 13.7** Details of membership of the Project Review Board, Core Team and external advisors are provided in appendix 12.
- 13.8** The project will be managed in line with PRINCE 2 (PProjects IN a Controlled Environment). This will include regular scheduled meetings with the Project Review Board and monitoring reports to the Executive Member for Culture & Leisure.
- 14. Project Milestones**
- 14.1** Key project milestones together with estimated levels of expenditure are shown below. The City Council can decide to review, progress or halt the project at the identified milestones;-

Date	Milestone	External Costs	Internal Costs	Total Costs
June 2003	Outline Planning			
Sept 2004	1 st stage Lottery Award			
Feb 22 2005	Full Council Approval to proceed	£325,483	£49,517	£375,000
June 2005	Confirmation of Shortlists	£627,040	£65,930	£692,970
June 2005	Invitation to tender (after OJEC)			
Sept- Nov 2005	Bids Received	£969,980	£103,730	£1,073,710
Dec 2005	Preferred Operator identified	£1,124,244	£128,000	£1,252,244
June 2006	Financial Close with Operator/Sport England 2nd stage approval	£1,413,760	£187,930	£1,601,690
Dec 2006	Start on site			
June 2008	Open Centre			

Note 1: Costings are cumulative and based on a Council decision on 22 Feb 2005 to progress and NO further delays

Note 2: Stage Milestones when members can review progress in “bold”

14.2 The costs of project development will be at the risk of the City Council up until confirmation of a full Sport England Award and financial close with the private sector operator partner, currently scheduled for June 2006. A firmer estimate of actual costs will be available on receipt of bids (September – November 2005).

15. Conclusions

15.1 Significant work has taken place in recent years to establish the most appropriate way to address acute pressures facing sports and leisure facility provision in Portsmouth. The Mountbatten Centre Redevelopment proposal is a cost effective long term response to these issues. It is a good value for money option when compared to other alternatives whilst also delivering a facility of which the city can be proud.

.....
Head of Community Services

The recommendation set out above was approved for referral to the City Council/approved as amended/
deferred/rejected by the Executive on 22 Feb 2005

Signed:
(Councillor Gerald Vernon-Jackson, Leader of the Council)