

11.1 Confidential - Aldinga Recreation Centre Expression of Interest

This report provides an update on the process and outcomes of the Aldinga Recreation Centre Expression of Interest (EOI) and seeks Council approval of the preferred respondent for the operation of the centre.

This is an update on a previously reported project, concept or issue.

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Attachments:	1 Location plan and building plan (1 page) 2 Expression of Interest evaluation criteria and scoring matrix (2 pages)

1 Executive summary

1.1 Topic

This report provides an update on the process and outcomes of the Aldinga Recreation Centre Expression of Interest (EOI) and seeks Council approval of the preferred respondent for the operation of the centre.

1.2 Context

The Aldinga Indoor Recreation Needs Analysis (AIRNA) was completed in 2006 identifying a clear, expressed demand for an indoor recreation facility in the rapidly expanding Aldinga area. This was confirmed as part of the Aldinga Indoor Recreation Centre Feasibility Study completed in December 2009.

In July 2009 the federal Department of Infrastructure, Transport, Regional Development and Local Government announced \$2m funding toward the project through the Better Regions Program. Council subsequently allocated the balance, an additional \$1.85m, within the Major Project Fund and Green Building Initiatives Fund over 2010-11 and 2011-12. In February 2010 Council approved the procurement process (for the construction phase) with a subsequent report in May 2010 approving the contract award for construction of the recreation centre.

Construction and fit out of the \$3.85m recreation centre is currently being completed. The facility is located at lot 2 McRae Street within the Aldinga District Centre (attachment 1). Concurrent to the building project, council staff have concluded an Expression of Interest process to identify an appropriate operator to manage the facility and provide broad ranging and accessible recreation services to the community.

This report details the completed process and seeks Council approval of the preferred respondent. It also seeks delegated authority to the Chief Executive Officer (CEO) to negotiate final lease arrangements with the preferred respondent.

This item is presented as a confidential item under Section 90(3)d of the *Local Government Act 1999* as it provides information supplied as commercial in

confidence for Council's consideration in approving a preferred respondent for the operation of the Aldinga Recreation Centre.

In order for respondents to disclose the necessary financial and commercial information during this process confidentiality needs to be assured. Public release of this information provided in commercial confidence could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party. In addition, it is in the public interest to ensure a competitive process so we are successful in achieving the most appropriate operator available within the market for this facility.

A lack of confidentiality would not only discourage potential respondents but would erode the competitive nature of the process. Therefore it is believed that on balance, it would be contrary to the public interest to compromise the information provided as commercial in confidence to Council.

1.3 Financial implications

The EOI process has been managed via operational budgets. There is no substantive cost to Council in securing the services of a private operator to manage the Aldinga Recreation Centre.

Income to be generated from the centre is outlined within section 4 of this report.

1.4 Suggested outcome

That Council approve the preferred respondent and delegate authority to the CEO to negotiate the final details of a lease agreement for the Aldinga Recreation Centre.

2 Recommendation(s)

1. That

- a. under the provisions of Section 90(2) of the Local Government Act 1999 an order be made that the public be excluded from attendance at the meeting in order to consider in confidence this item.**
- b. Council is satisfied that it is necessary that the public be excluded to enable the Council to consider the report at the meeting on the following grounds:**

Section 90 (3)(d) commercial information of a confidential nature (not being a trade secret) the disclosure of which-

- (i) could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party**
 - (ii) would, on balance, be contrary to the public interest.**
- c. accordingly, on this basis the principle that meetings of the Council should be conducted in a place open to the public has been**

outweighed by the need to keep the information or discussion confidential.

- 2. That Council approve Wellness Lifestyle (SA) Pty Ltd (as trustee of the Wellness Lifestyle Trust) as the preferred respondent for negotiating a final lease agreement to occupy the Aldinga Recreation Centre.**
- 3. That Council delegate authority to the Chief Executive Officer to finalise and execute a lease agreement with Wellness Lifestyle (SA) Pty Ltd (as trustee of the Wellness Lifestyle Trust) to occupy the Aldinga Recreation Centre.**
- 4. That an order be made under the provisions of Section 91(7) and (9) of the *Local Government Act 1999* that the abovementioned document (or part of such document) including the minutes and the report of the Council relating to discussion of the subject matter of that document, having been dealt with on a confidential basis under Section 90 of the Act, should be kept confidential on the grounds of information contained in 90(3)(d) until such time as the lease is executed.**

Key factors

3 Discussion

3.1 The facility

The Aldinga Recreation Centre (Centre) is a one court stadium that will provide improved recreation opportunities to better meet the needs of local residents, schools and community groups within this rapidly expanding community. It will initially consist of a single court (level one) recreation centre providing for a range of indoor activities (basketball, netball, soccer etc) together with a multipurpose room, toilets, change room facilities and car park.

The 2009 Aldinga Recreation Centre Feasibility Study identified that the catchment warranted a level one facility. However, a one court facility was unlikely to be profitable in the initial years of operation and the study concluded that a Council subsidy of approximately \$30,000 per annum would be required.

The Aldinga Recreation Centre has also been identified as a 'flagship' green building and demonstrates the application of green building techniques. It is also designed to enable a second court to be easily retrofitted to the complex creating a Level 2 facility should demand increase with the growing population.

The design and construct contract for the centre was awarded to ISIS Projects on 4 May 2010. Works commenced in February 2011 and are currently being finalised. Concurrently an expression of interest (EOI) was undertaken to identify suitably qualified and accredited companies or organisations to manage the centre. One of the aims of the process was to identify whether prospective tenderers would invest capital funding of approximately \$100k in to the final fit out of the facility for items such as fitness centre floor, office fit out, audio visual equipment and various court items tailored to the sports that will be offered etc.

The mission of the centre is:

'To contribute to the advancement of a healthy, social and cultural lifestyle for the residents of the City of Onkaparinga and visitors'.

The aim of the centre is to cater for as many user groups as possible and to operate as an economically efficient facility that:

- minimises the cost of operations
- maximises the benefits flowing to residents
- achieves a cost neutral position for council.

The centre objectives as outlined in the Expression of Interest (EOI) are as follows:

- provide a diverse range of high quality and affordable recreation based programs and activity opportunities that are consistent with community needs
- ensure that the centre operates as economically as possible in the achievement of its agreed financial targets which at least breakeven
- develop and maintain appropriate financial systems and monitoring procedures
- provide equal opportunity for all persons to participate in the programs and activities offered regardless of age, race, sex, ability, or specific interest
- offer services that are recognised as a benchmark for other facility providers
- continually seek to identify and cater for changing needs within the community and improve the range and quality of services offered.

The EOI sought to identify a suitable private operator to take on the role of centre manager and deliver the above aims and objectives.

The process has been successful in identifying a preferred respondent that is experienced in delivering on these types of key performance areas and can add value with additional linked services as discussed below.

3.2 Expressions of Interest Process

In accordance with the procedure approved by Council and our Contracts, Tenders and Purchasing Policy and Procedures, an open expression of interest (EOI) invitation was issued through SA Tenders and Contracts web site.

The EOI was released on 16 August 2011 and closed on 8 September 2011. Three EOI responses were received as outlined in Table 1 below.

Table 1

EOI respondent	Associated business/current role
Wellness Lifestyle Trust	Operators of Spa Clubs McLaren Vale and Victor Harbor Fitness
Belgravia Leisure	Operators of the Noarlunga Leisure Centre and various sites across Australia

EOI respondent	Associated business/current role
CASA Leisure	Operators of the Seaford Recreation Centre and various sites across Australia

The evaluation panel consisted of the following members:

- Alison Hancock, Manager Property and Recreation
- Carmine Gallerello, Senior Property Officer
- Matt Buckell, Project Leader
- Mike Brown, Social Planner
- Chris Maschotta, Senior Recreation Planner
- Michelle Gegenhuber, Senior Projects Advisor

The evaluation panel was observed and advised by:

- John Braun, Contracts Officer
- Mark Henderson, Partner Norman Waterhouse

3.3 Expressions of interest – evaluation

3.3.1 Non conforming tenders

The CASA Leisure response was non-conforming as it was a letter received outside of the required process (via mail to Council as opposed to a submission entered into the tender box), was received past the EOI closing date and did not address any mandatory criteria. Therefore, the evaluation panel deemed the submission should not form part of the assessment.

Belgravia Leisure also provided a non-conforming submission as it proposed a business model which required ongoing subsidisation from Council, therefore not meeting one of the mandatory criteria. However, it was received on time through the appropriate EOI process and did address a number of other criteria sought by the EOI. For these reasons, and that the submission would provide the evaluation panel with context for the conforming submission, it was deemed appropriate to include in the assessment.

3.3.2 EOI Process Outcomes

The two EOI submissions were assessed against a series of mandatory and weighted evaluation criteria. The scoring of each EOI submission against the individual criteria is contained within attachment 2 of this report. The total scores allocated to each submission are outlined in table 2 below.

Table 2

EOI respondent	Weighted score
Wellness Lifestyle Trust	64
Belgravia Leisure	26

3.3.3 Belgravia Leisure proposal

Whilst Belgravia Leisure is a professional leisure organisation with good capacity they failed to respond to the criteria within the EOI. Their proposal was based on a fee for service model and which therefore requested Council pay Belgravia for managing the centre and providing services until such time as a profitable business is established.

3.3.4 Wellness Lifestyle Trust proposal

The Wellness Lifestyle Trust proposal responded to each of the criteria and provided a sound submission which incorporated a well thought out business plan and addressed all mandatory criteria as discussed below.

Key points of note within their submission include:

- Wellness Lifestyle Trust is prepared to make a capital contribution of approximately \$103,000 which will be used to fit out the Aldinga Recreation Centre ready for operation
- Wellness Lifestyle Trust currently manage two health and fitness centres, one at McLaren Vale and one at Victor Harbor
- they have experience in and currently operate a wide variety of programs at McLaren Vale and Victor Harbor for a very diverse demographic, from teenagers to older adults and offer concessions for elderly, students and healthcare card holders
- Wellness Lifestyle Trust can offer members of the Aldinga Recreation Centre access to their centre in McLaren Vale which includes pool and spa facilities
- their mission is to provide a third place for people 'a place outside the home and their work or school environment where they feel comfortable, safe and welcome'
- a proposal for 24 hour access to gym facilities.

The Wellness Lifestyle Trust submission demonstrated good value for money. They are not seeking a financial contribution from Council or a fee for management services and can add value to centre services through providing members access to their additional facilities in McLaren Vale and Victor Harbour. They articulated their broad range of community focused services and programs in addition to providing 24 hour gym facilities.

The business plan demonstrated that the fee structure that is envisaged for the Centre is in line with the fees and charges of our other centres at Seaford and Noarlunga.

Their demonstrated ability and experience scored low against the evaluation criteria at the time of assessing submissions as they lacked information in this area. However, further information was provided upon request which demonstrates the significant experience of the company owner and key personnel in the recreation industry.

As part of our due diligence, we engaged the services of Corporate Scorecard, a professional commercial, financial and risk advisory consultancy to undertake a review of the Wellness Lifestyle Trust. As part of their assessment Corporate Scorecard reviewed the cash reserves, assets, liabilities and liquidity of the Wellness Lifestyle Trust.

It is worth noting, the financial capability of Wellness Lifestyle Trust also includes the capability of additional entities owned by Graham Mowatt, the businessman responsible for the EOI submission. Additional entities include Graham Mowatt (in his personal capacity) and the Victor Harbour Fitness Trust. The aggregate of these entities formed the Corporate Scorecard assessment which rated the financial capability of Wellness Lifestyles Trust as 6.64 out of 10 which is 'sound' and able to perform the financial capabilities of the lease.

Graham Mowatt has a controlling interest in all three entities. The submission for the EOI Process was submitted by the Wellness Lifestyle Trust.

As a trust is not a legal entity in its own right, it is proposed Council enter into legal arrangements with Wellness Lifestyle (SA) Pty Ltd, which is the corporate trustee of the Wellness Lifestyle Trust. As corporate trustee, Wellness Lifestyle (SA) Pty Ltd (of which Graham Mowatt is the sole shareholder and director) owns and operates the Spa Clubs business on behalf of the Wellness Lifestyle Trust. Subject to Council approval this company will operate the new Aldinga Recreation Centre business on behalf of the Wellness Lifestyle Trust.

Given the structure of financial interests, discussions have taken place with Graham Mowatt's accountant who has advised that the trusts enable each business entity to be managed individually which assists in managing performance and allows for potential future change e.g. taking on a partner or sale of a business, without affecting the other interests. It also provides some degree of asset protection.

Legal advice was also sought on the structure of Graham Mowatt's finances. It was advised that under the terms of the trust there were no restrictions on the ability of Wellness Lifestyle Trust to function, manage or invest in facilities and the financial structure was not an issue. However, to ensure the financial support of all three entities is behind the operations of the centre it was recommended that cross guarantees from the other two entities (ie. Graham Mowatt and the trustee of the Victor Harbor Fitness Trust) are secured through lease negotiations.

4 Rental proposal and lease terms

Wellness Lifestyles Trust EOI submission proposes an initial lease term of 5 years with a 5 year right of renewal together with the following financial arrangements:

- a capital contribution of \$103,000 to fit out the building for their use
- all outgoings to be paid by the lessee
- rent free period of 6 months followed by a rental of 15% of gross profits for the subsequent 12 months (estimated at \$3,000 per month or \$36,000 pa)
- post 18 months of operating a rent of 25% of net profits to council.

Additional operational lease terms to be negotiated will include:

- 24 hour gym access and associated security requirements
- hours of centre operation
- staffing and service levels
- control over pricing structures.

The rental structure proposed is aligned with the structure negotiated for the operation and management of the Noarlunga Aquatic and Leisure Centre.

Given that the 2009 Aldinga Indoor Recreation Centre Feasibility Study indicated that the centre is likely to run at a deficit requiring an operational subsidy from council in the order of \$30,000 a year (for at least the first couple of years), the evaluation panel believe the EOI proposal to be reasonable and exceeds the original financial expectations. The proposal also includes additional services over and above those offered by traditional recreation centre managers eg. access to pool facilities at another centre and 24 hour gym access.

It is also worth noting that the market for recreation centre managers is very limited and therefore the tender responses received provided a good cross section of the market.

5 Next steps

Subject to Council approval it is proposed to negotiate the final lease agreement with the preferred respondent immediately. Wellness Lifestyles Trust has indicated that subject to executing the lease, they would seek to be operating as soon as possible. It is envisaged that the full extent of services will be in place by February 2012 when the school year commences.

Council will be updated on the project and lease milestones via Weekly News and the centre launch is tentatively scheduled for early December 2011.