

Sandown TOA – Procurement Process Options Paper

Revision No. 7

D Newton, Corporate Impact, 25/04/18

EXECUTIVE SUMMARY

This document is written as a part of the Sandown Tourism Opportunity Area (TOA) Project which was established to consider the future use of IWC land centred around Dinosaur Isle, Sandown. It recognises the challenges facing The Bay Area, the town of Sandown, and the fact that Dinosaur Isle (a key attraction) is aging rapidly and in need of £0.85M of investment for repairs and maintenance, and £1-2M in total if it is to be improved and modernise.

As IWC is unlikely to have the resources available to address these issues on its own. This project is seeking to identify a potential investment/development partner to modernise and expand Dinosaur Isle and advance the regeneration of The Bay Area.

This project was initiated in June 2016 and has to date:

- Undertaken desk research and initial interviews with key stakeholders
- Identified issues affecting the Town & Museum
- Agreed aims and objectives
- Quantified physical & financial risks facing the Museum
- Freed the site from conditions of grant funding
- Run a Soft Market Test Exercise
- Held a follow-up Stakeholder Engagement day
- Refined and agreed revised criteria for success
- Produced this paper along with a range of underpinning documents

The steering group would now like authority from elected members to proceed with a procurement process based on an approach known as 'Competitive Procedure with Negotiation' to identify a partner/s. They are also seeking authority to undertake further feasibility work on the use of other IWC land and the potential for IWC to invest in the future success of Dinosaur Isle. The issue and options surrounding these recommendations are outlined below.

In considering the future of Dinosaur Isle and its impact on The Bay Area it has been important to recognise that the accredited museum plays three roles:

- A visitor attraction,
- An educational centre, and
- A world renowned scientific resource.

It also comprises of the land, building, staff and volunteers, and the collection. Each needs specific attention and careful consideration of issues arising from potential partnerships e.g. who would employ which staff and could stewardship of the collection be appropriately managed under new arrangements. Considerable research and engagement with key stakeholders has been undertaken to better understand these issues. This has resulted in the development of success criteria that reflect both the original broad aims of the project and important ingredients in securing the museums ongoing success. These criteria will be used as the basis for assessing proposals in the future so as to ensure an appropriate balance of qualitative elements (e.g. maintaining the museums accreditation), quantitative performance (e.g. an increase in visitor numbers) and wider public benefit.

This work also recognises there are other significant limitations such as planning constraints, the environmental sensitivity of the surrounding land, legal issues such as the lack of clarity around 'ownership' of all the different items in the collection, and the financial standing of the authority which means that any financial losses on a non-statutory service such as a museum have a direct impact on statutory front-line services such as social care.

Delivering the proposed criteria is likely to require significant capital investment; and may require another party to take responsibility for the site and bring further expertise to maximise financial returns and/or reduce risk. There are numerous ways in which these needs could be met such as selling or leasing associated property, seeking loans or grants, or entering into a Joint Venture (JV). Again, each requires careful consideration when being applied to the operation of something as complex as a museum.

The council is interested in exploring the potential of a Joint Venture but is yet to decide what degree of financial support (if any) it will bring to such an arrangement. The idea of a JV was tentatively explored through a Soft Market Testing exercise which elicited a meaningful response from a small but impressive selection of potential partners from the Island, mainland, Europe and as far afield as Australia.

Through engagement with potential bidders it has become clear that land nearby the museum (including additional parking) is seen as important to the success of a new visitor attraction. Particularly, as there is interest in creating a further outdoor element to the museum such as a dinosaur park, but this will require significant space. As such, further work is required on the feasibility of including other IWC land such as that which does not directly abut the site but sits to the north beyond Browns Golf Course.

Market engagement has shown that there is likely to be competing 'commercial' interests seeking a role in Dinosaur Isle and/or use of nearby land. As such any process used to select a preferred partner (including consortia) for IWC needs to be open and competitive so as to ensure best value and demonstrate public accountability. However, there is concern that traditional 'formal' processes can be inflexible and slow, and so a newer hybrid approach is required.

There are also a number of key variables and still a wide range of potential operating models that seem viable, and so it would seem wise to explore these further before limiting IWC's options. However, delaying the process further is unlikely to generate much more useful

further information as it has been interaction with others that has recently been of most value. As such, a process that enables this on-going dialogue while progressing the actual procurement would be beneficial. A “competitive procedure with negotiation” is process that exists for exactly this purpose. It is relatively new but sufficiently tested for the project steering group to recommend it as the way forward. In addition, a museum service falls under the Light Touch Regime (Regulations 74-77 of the Public Contracts Regulations 2015) which offers far greater flexibility of process. This will allow the Council to design its own project specific procurement process which will be based on the Competitive Procedure with Negotiation but not stringently tied to a prescribed detailed process and timeline.

1. Introduction

This document is written as a part of the Sandown Tourism Opportunity Area (TOA) Project. It is written by *Corporate Impact* for the project steering group to enable them to agree the appropriate procurement process to pursue should a partner or partners be required to secure the necessary resources to deliver the project. It outlines issues and options and states *Corporate Impact's* preferred options as the recommendations for their approval.



Figure 1: Sandown TOA and land ownership within the area.

While the project considers the whole TOA above it has been primarily focussed on the Dinosaur Isle Museum and associated land (Site no. 2). This document reflects that focus.

2. Background

For some years, it has been recognised that The Bay Area on the Isle of Wight is critical to the economic stability of the Island and has the potential to stimulate significant regeneration. Unfortunately, there is still limited investment and some key developments have not moved forward leaving significant eyesore sites in important locations. As such, IWC is now seeking to use its assets in the area to attract investment and help trigger the area's wider regeneration. Key to this is Dinosaur Isle.



Figure 2: Dinosaur Isle with the derelict Grand Hotel site in the background.

Dinosaur Isle was funded with the aid of a Millennium Commission (now Big Lottery Fund, or “BIG”) grant in 1998, to provide a visitor attraction which would house the Sandown geological collection in an iconic building, as a way of marking the Millennium on the Island.

While it has been a successful project it now faces challenges largely due to its aging infrastructure and rapidly deteriorating superstructure. It is also recognised that there is further significant untapped commercial potential. It is estimated that an investment of £1-2M would be required to repair the museums and address its major commercial deficiencies such as the lack of a café.

As IWC is unlikely to have the resources available to address these issues, this project is seeking to identify a potential investment/development partner to modernise and expand Dinosaur Isle and advance the regeneration of The Bay Area. This work is set against a backdrop of restricting public finance and two previous attempts to address the future of Dinosaur Isle in 2010 and 2012.

This project has been recognised by the Cabinet as a significant ongoing project and as such is intended to add value to the IWC regeneration strategy. Following initial stakeholder engagement, extensive background research, and resolution of legal issues; a Soft Market Testing Exercise and further stakeholder engagement were undertaken to inform this paper.

3. Issues

3.1 Overview

The rejuvenation of Dinosaur Isle is a complex matter with interrelated issues historically causing a lack of certainty as to the way forward. The project team have spent many months exploring these issues so as to create clear aims, parameters and next steps.

Key issues include:

- Consensus around required outcomes
- Operational restrictions
- Clarifying nature of offer
- Agreeing an appropriate process
- Sustaining the facility and its purpose

3.2 Required Outcomes

Critical to the success of the project is the success of the museum. But it's important to note that the museum itself consists of four elements:

- The site,
- The building,
- The service, and
- The collection.

To add further complexity the service is delivered by a mix of staff and volunteers and involves a wide range of stakeholders.

The museum also plays three roles:

- A visitor attraction,
- An educational centre, and
- A world renowned scientific resource.

It is easy to become quickly drawn into 'fixing' Dinosaur Isle as the museum is the focus of the work but it must be remembered that supporting the regeneration of Sandown is the desired outcome. As such, the views of external stakeholders also need to be considered before deciding the future of the museum.

The project team have been in discussion with key stakeholders since the project began and towards the end of last year undertook a Soft Market Testing Exercise (SMTE) and a wider stakeholder engagement day to better understand the issues and aspirations surrounding Dinosaur Isle. This work has created refined criteria to guide the development of proposals.

The proposed criteria are:

A: Dinosaur Isle (*50% weighting*)

1. Maintain museum accreditation with a commitment to continuous improvement
2. Grow and improve the quality of the collection and maintain it locally to maximise public benefit
3. Improve community involvement and relationships with local collectors and volunteers
4. Improve Dinosaur Isle's value and use as a regional educational resource
5. Make the new Dinosaur Isle museum an engaging high-quality sustainable facility

B: Wider Impact (*35% weighting*)

1. Increase visitor numbers to the Island
2. Support a more diverse and less seasonal tourist economy for Sandown Bay
3. Build links with universities to promote and provide Island-based higher education opportunities
4. Improving the Island's educational offer around STEM subjects
5. Support global branding and awareness of the Isle of Wight

C: IWC Duties (*15% weighting*)

1. No negative financial impact on IWC and its services
2. Compliance with existing IWC strategy and policy
3. Support the Island's overall economic, social and environmental wellbeing

The weightings that have been included will help the formation and evaluation of proposals aimed at meeting the required outcomes. However, the steering group has also considered the use of absolute minimum criteria that a proposal would have to meet.

Existing implicit minimum criteria are:

- Lawfulness
- Financial viability for IWC

The proposed new minimum criteria are:

- Collection kept for Public Benefit
- Museum remains accredited
- Operation is financially sustainable for IWC and key partners

If this recommendation is adopted it is likely some criteria above such as A1, A2 & C1 would be slightly redrafted to be more aspirational so that proposals that exceed the minimum are better recognised.

The use of minimum standards as an absolute does have potential drawbacks and still leaves room for misinterpretation. For example, it might be possible to fulfil the minimum criteria above by closing the existing building and radically diminishing the service and display material so that it can operate affordably within another Island-based accredited museum's building. This does not resonate with the feedback we have received from all stakeholder groups. Therefore we are recommending that the minimum standards are used for long-listing only with weighted criteria as above suggested for short-listing as they enable some flexibility. However, a proactive approach to accreditation is so important to most primary stakeholders and hugely important to the operational model of a rejuvenated Dinosaur Isle, so it must receive one of the highest priorities during short-listing. The appropriate use and stewardship of the collection may be marginally more important as it secures the greatest asset for future generations but doesn't seem to be as emotive a issues as accreditation or have such far reaching implications for the whole model. As such this area should be scored a little below accreditation during short-listing. A financially sustainable solution is a de facto requirement but hard to evidence so a degree of judgement will be needed in assessing bidders evidence that their proposals are feasible for the next 3-5 years. Further flexibility may also be required during shortlisting in assessing the longer-term financial pros and cons of different financial proposals.

Performance indicators

In due course IWC will also need to agree performance indicators so as to assess proposals against short-listing criteria i.e. A high-quality sustainable accredited museum attraction may be expected to perform at the following minimum levels:

- 100,000 visitors a year
- 90% positive visitor feedback
- 75% of visitors spending 2+ hours at the museum
- 50% of visitors of all ages engaging in an interactive display or activity
- 20% profit-margin
- Clear use of an 'edutainment' strategy

It is anticipated that meeting the indicators listed above will require the addition of a cafe, improved education facilities, approximately double the current exhibition space, and on-site collection storage. This will all need to be enhanced with a modernised technological offer.

While ambition need not be limited to the above, there has been a strong emphasis on deliverability throughout the work so far. This requires that any proposal could attract an investor within a year and create a return on that investment with five years. This will require a significant level of 'commercial' activity to generate a return on any investment in the site. So, a financially sustainable museum will have to be generating sufficient income to cover running costs, finance cost, long-term maintenance costs, and an appropriate margin for risks and ongoing development.

3.3 Operational restrictions

Significant operational restrictions include:

- Planning
- Available assets
- IWC Finance
- Employment relations
- Accreditation
- Use of the collection

Planning

The site is within a flood zone and close to areas of ecological value. This limits what can be built there particularly in terms of on-site enabling development. Even an extension of the existing facility would have to prove it was appropriate for that location which increases planning and design costs. However, the principal planning advice has been supportive and there seem to be opportunities to expand both the footprint of the current structure and enhance the use of some elements of the site.

Available Assets

Existing lease arrangements on neighbouring sites seem to limit the IWC offer to Dinosaur Isle although further legal analysis may reveal other options. As such, it is probable that any discussion around expanding the development onto nearby sites will be at the discretion of existing leaseholders. However, IWC may find itself involved in such discussions as its lessees may wish to vary an existing lease to accommodate a proposal. Such discussions have recently been undertaken with Sandown Town Council.

IWC Finance

Our research has indicated some approximate development costs that give a sense of scale to the proposed project.

Approximate capital cost estimates are:

- £1-2M to repair and update the existing museum
- £5M to turn Dinosaur Isle into a regionally significant visitor attraction
- £10M to turn Dinosaur Isle into a nationally significant visitor attraction

It has generally been assumed there will be no funding available from IWC to assist any partner with a proposed development or to reduce risk by undertaking enabling studies or works. However, there is a general willingness to maintain the museum during this process to ensure it doesn't become further dilapidated while the process is underway. It is also recognised that IWC has a property investment fund which could be applied to this project if it met appropriate risk/return criteria. A formal decision has not been made and clarity on this point will be critical to how this project progresses through to negotiation with potential partners.

Employment Relations

As with any change proposal, the ongoing legal and operational relationship with employees needs to be carefully considered. At Dinosaur Isle, there are curatorial staff, front of house staff, support staff (e.g. maintenance workers), and volunteers. As some of these could be contracted from other areas of the council, the impact on wider staffing structures needs to be considered. It may also be necessary to consider how such staff could be managed in a partnership with a third-party e.g. IWC maintaining appropriately qualified curatorial staff to manage the collection while a more commercially orientated operator provides front of house staff.

Accreditation

A considerable concern throughout the time of the work to date has been ensuring that the museum remains accredited. As highlighted above this is a core aim of the project as it is seen as integral to the ongoing success of the museum, and important in bringing wider benefits to the town and Island. This aim does further complicate the operating environment as there are restrictions and standards which must be adhered to. This is particularly challenging in relation to private sector involvement in the project as the governance of the museum (i.e. how the service & collection are owned and managed) must be maintained on a not-for-profit basis. There can of course be private sector involvement as suppliers, operators or owners of related aspects such as the shop or an attraction but there needs to be clear delineation and careful management of such arrangements.

Use of the Collection

The collection is distinct from the museum although the museum houses significant elements of the collection. A form of licence may be required to regulate access to and appropriate use and preservation of the collection. As many items were donated by local collectors or may be on semi-permanent loan, legal issues around ownership and use may also need to be clarified. This area will become a significant risk if the local collector community are not happy with the outcomes of this project. A loss of confidence from the collector community would also lead to the collection stagnating as most donations would almost certainly cease.

3.4 Nature of Offer

Financial Arrangement

Delivering the proposed criteria is likely to require significant capital investment; and may require another party to take responsibility for parts of the site and bring further expertise to maximise financial returns and/or reduce risk. These needs could be met in various ways.

Potential capital income sources include:

- Grants & Awards
- Investments (inc. Public Works Loans & Commercial Finance)
- Premiums (Lease Premium or similar)

Mechanisms for devolving responsibility for costs include:

- Entire site or parts sold
- Entire site or parts leased (full Repairing Lease)
- Existing building is leased (full Repairing Lease) with Service Charge
- A 'standalone' bespoke legal agreement relating to services delivered

Mechanisms for introducing new 'commercial' expertise include:

- Commercial elements leased with service charge
- Franchise commercial elements
- Procuring specific commercial services
- Recruit key individuals with the specific skills base
- Partner with a suitably experienced organisation around specific initiatives e.g. e-commerce or education

As already mentioned, the leases and funding arrangements concerning the sites abutting Dinosaur Isle site seem to prevent IWC making any direct offer around their use. As such, only the Dinosaur Isle site was previously considered as a part of the offer.

The Dinosaur Isle existing site and associated assets include:

- Car park
- Museum building
- Additional land on site (with restrictions)
- Access to the collection
- Goodwill of the volunteers & local collecting community
- Brand value and existing marketing
- Website
- Staff
- Current exhibition
- Current stock

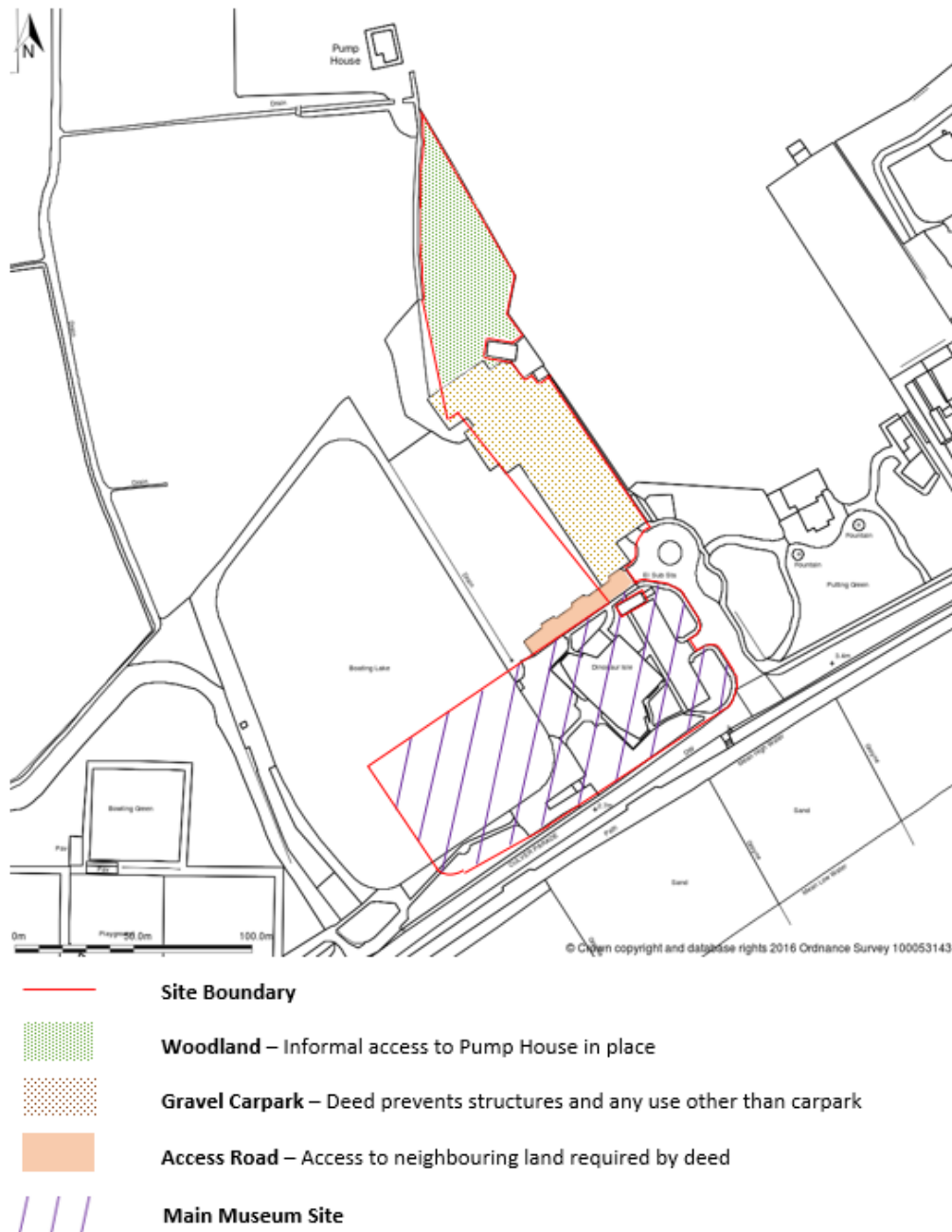
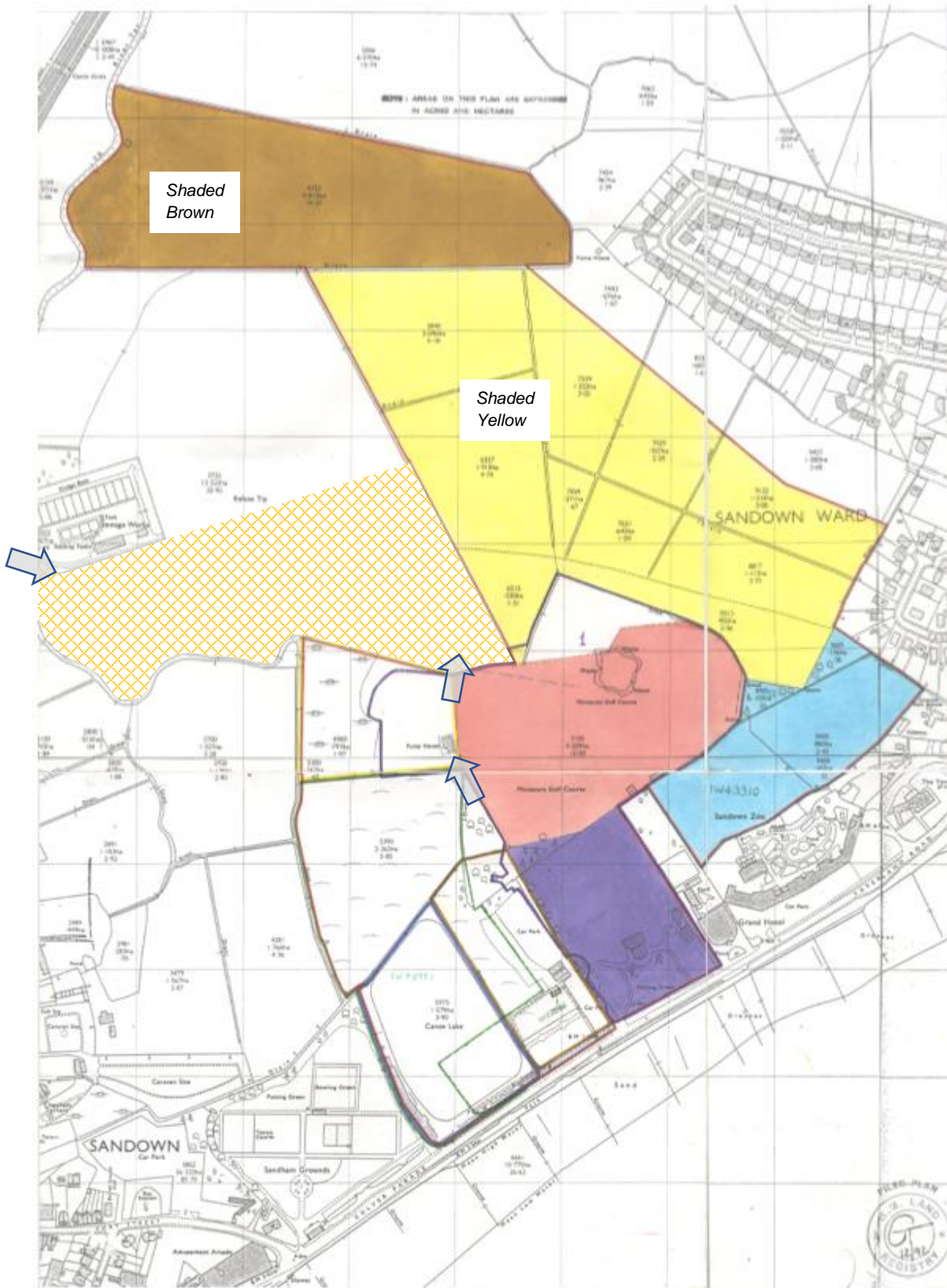


Figure 3: Site boundary with main restrictions listed.

Through both stakeholder engagement and soft market testing it has become apparent that the surrounding land (including additional parking) is seen as important to the success of a new visitor attraction. There is considerable interest in creating a further outdoor element to the museum such as a dinosaur park but this is likely to require significant space. As such, further work is required on the feasibility of including other IWC land including that which does not directly abut the site but sits to the north beyond Browns Golf Course. This land is indicated in yellow and brown on the original lease map (overleaf). An additional area has been cross-hatched orange on the map overleaf to highlight land also owned by IWC under separate lease. The limited access points to these sites are shown with arrows which highlights the need for further land use negotiation with tenants at some point in the process.



IWC could formally offer an option on additional plots or indicate their willingness to discuss such matters. Negotiation with tenants could then be left to potential partners to agree amongst themselves or negotiated via IWC either prior to the process or through the process. It is advisable to continue brief leaseholders and neighbours on the likely approach.

3.5 Nature of the Process

Key issues in relation to the 'procurement' process include:

Is formal procurement appropriate?

This is still a fundamental question that is yet to be answered. Options include:

- Maintain in-house
- Land transaction
- A formal procurement process
- Close the museum in its current form

If some responsibility is transferred to another party, the more involved IWC is in the way that party uses of the land or operates the museum the more likely it is that a procurement process will be required. As such, a hybrid land transaction may also require a procurement process.

It may also be desirable or necessary for the museum to be the subject of a Community Asset Transfer (CATs). Such transfers do tend to operate under a more relaxed regime than commercial transactions but are still subject to legal restraint and public scrutiny. It is of particular note that on occasion CATs have been challenged if they are seen as a sham property transaction concealing a change of service provider. This is important as procurement regulations concerning services are more complex than those concerning simple property transactions. As this project may require something of asset-based service hybrid-bid, the simplicity of an asset transfer may not be appropriate. It is also good practice to use a form of open and competitive tender process in Community Asset Transfer to ensure Best Value and public accountability. Often such competition is only between not-for-profit entities because the nature of the asset in question prohibits private sector involvement. However, this project may yet uncover a useful a role for a private sector entity in a land transaction (although not the museum's governance). As such, it seems appropriate to run a process that is open to all sectors but which appropriately values the differing contributions that each sector might bring to the table.

It is important to stress that whether or not an approach might require a certain type of procurement process should not be a major consideration in finding a way forward. The process needs to enable the desired outcome and so clear prioritised outcomes are critical.

Duration versus Quality

Firstly, it is important to stress that a longer process will not automatically generate a higher quality outcome. However, any process does need to be sufficiently long to enable new potential partners to assess the opportunity, develop new relationships, and draft meaningful proposals. This will also create significant costs for those bidding and as such it is usual to have stages in such a process to enable bidders to invest more significant resource once they have a better understanding of the likelihood of success. By already beginning market engagement, we have shortened the maximum time one might spend on a formal process but we do still need to allow those who were not involved in the market engagement sufficient time to respond.

Somewhat counter to this need to give interested parties sufficient time, we also recognise the urgent need to show progress. We are mindful of the delays already encountered and mounting financial pressures on the museum. As such, we will enable IWC to conclude this process within the financial year ending March 2019.

Competition, accountability and compliance

As this project was developing it became clear that there was commercial interest in the site and the museum. This interest was further tested via a Soft Market Testing Exercise to see if there were enough interested parties to warrant a formal tendering process if it were needed. It was also seen as an opportunity to test materials already under development.

The Soft Market Test Exercise revealed:

- Sufficient interest from credible parties from public, private & voluntary sectors
- Strong public interest
- Criteria 'fit for purpose' in expressing parameters without deterring interest
- Some untapped or underutilised resources/assets yet to be considered – e.g. Digital Platforms & Education
- Collection will need to stay under IWC's stewardship
- Related activities already underway – e.g. Discovery Bay
- Range of operational models to consider
- Quality (particularly educational quality) and the academic legitimacy of the museum are seen as essential by its supporters

There is likely to competing 'commercial' interests in opportunities relating to Dinosaur Isle and so any process needs to open and competitive so as to ensure best value and demonstrate public accountability. However, this does not automatically mean adopting a prescribed OJEU compliant process (which can be very time consuming). In essence, the more akin to a property transaction the activity becomes the less likely it is that a Europe-wide process will be needed to satisfy regulation.

If there is a service element to any proposals then European procurement thresholds will have to be considered. Regardless of such thresholds, a procurement process of any sort will have to be compliant with the Public Contracts Regulations (PCR) 2015. However, as museum services falls under the Light Touch Regime (Regulations 74-77 of the Public Contracts Regulations 2015) this allows far greater flexibility of process allowing the Council to design its own procurement process if it adheres to some basic principles and general good practice.

Flexibility & Staging of the process

Based on the results of the Soft Market Testing Exercise, it would be possible to operate a single stage process by announcing the agreed opportunity on the South East Portal with all associated documentation. However, with so many possible operating models and some uncertainty around the offer, it would be beneficial to have some flexibility and room for negotiation within the process.

A single stage process also may not give a genuine indication of levels of interest from the market and would also ultimately only provide information on those prepared to submit a full tender. As such this approach limits the ability to engage potentially interested parties in the process latterly if any aspect of the process changes materially.

On the positive side a single stage process has the ability to be swift if there is certainty around the required outcome; strength of market; nature of the risks; and sufficient information available to make the process meaningful.

IWC will also need to be clear on whether it will be primarily assessing proposals on the teams and their potential to deliver, or the specifics of the proposals. However, it could be argued that to assess the full specifics of the proposals would require the successful completion of a planning application. Plans may also change as a result of information released by IWC following discussion and clarification via the process. As such, there is great merit in using a multi-stage process that enables suitably qualified bidders to progressively invest in building more detailed proposals as more certainty develops.

Openness and Impartiality

Stakeholder Engagement has identified a level of mistrust and suspicion about the aims of the process. Against such a backdrop it would be wise to invest in the process to prove its integrity. As such, IWC should consider using a panel to make the decision to eliminate proposals and that this panel includes someone from the museum development network or similar, to independently verify that proposals are compliant with good practice, accreditation and in the public interest.

3.6 Sustaining the facility and the purpose

The underlying assumption in considering a new approach to managing Dinosaur Isle is that the development can be significant enough to have an impact as a visitor destination and educational resource while generating sufficient return to justify such an investment.

Financial return on investment

To illustrate the potential for Dinosaur Isle we have used some very broad assumptions across two scenarios based on historic figures:

- **Scenario 1:** Steady-build from current performance level
- **Scenario 2:** Step-change from current performance with little growth

The scenarios are illustrated below, both assume the equivalent of a loan of £2M with related payments approximately equivalent to a mortgage with a 10% interest rate on an interest and repayment basis over 10 years. Year 11 has been included to show potential thereafter. A cost (sinking fund) has also been included to allow for another major refurbishment after 20 years although it is hoped that the refurbished building will perform better in this regard than the existing building.

It must be stressed that very broad and approximate figures have been used here simply to indicate the scale of the opportunity/risk. A feasibility study is beyond the scope of our contract and so we have not been able to interrogate financial information sufficiently for the forecasts below to be relied upon. However, we do feel they show sufficient potential for the client to consider undertaken a small piece of work to further explore the viability of investing in Dinosaur Isle.

Although considerable uncertainties remain, the conservative forecasts below suggest there is sufficient opportunity for an investor to make an acceptable financial return on the proposition. However, it may be a slower rate of return than a commercial investor would hope for. Addressing this issue by increasing the income from the museum may create tension between its financial performance and public benefit.

Historic Performance	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Visitor Numbers	68,276	64,000	71,450	77,033	72,861	353,620
Income	345,048	297,206	437,157	438,168	465,043	1,982,622
Expenditure	339,207	309,128	454,997	426,193	455,961	1,985,486
Profit	5,841	(11,922)	(17,840)	11,975	9,082	(2,864)
						Av.
Av. Income / Visitor	£ 5.05	£ 4.64	£ 6.12	£ 5.69	£ 6.38	£ 5.58
Growth rate		0.92	1.32	0.93	1.12	1.07

Scenario 1														
		YEAR:	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	TOTAL
PERFORMANCE/ASSUMPTIONS														
Visitors			75,000	80,000	85,000	90,000	100,000	107,000	110,000	115,000	120,000	125,000	130,000	1,137,000
Income per Visitor		£	6.50	£ 6.96	£ 7.44	£ 7.96	£ 8.52	£ 9.12	£ 9.75	£ 10.44	£ 11.17	£ 11.95	£ 12.79	
Rate of increase			1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	1.07	
Cost inflation			2.0%	2.0%	2.0%	2.5%	2.5%	2.5%	3.0%	3.0%	3.0%	3.5%	3.5%	
Variable cost per visitor			1	1.02	1.04	1.07	1.09	1.12	1.15	1.19	1.22	1.27	1.31	
INCOME														
Combined Income														
		TOTAL	487,500	556,400	632,557	716,650	852,017	975,475	1,073,022	1,200,322	1,340,185	1,493,748	1,662,243	10,990,120
EXPENDITURE														
Repayment			125,491	138,040	151,844	167,028	183,731	202,104	222,315	244,546	269,001	266,311	-	1,970,411
Cost of Finance			200,000	187,451	173,647	158,463	141,760	123,387	103,176	80,945	56,490	29,590	-	1,254,909
Sinking fund (Dilapidations)			100,000	100,000	100,001	100,002	100,003	100,004	100,005	100,006	100,007	100,008	100,009	1,100,045
Fixed costs			350,000	357,000	364,140	373,244	382,575	392,139	403,903	416,020	428,501	443,498	459,021	4,370,040
Variable costs			75,000	81,600	88,434	95,977	109,307	119,882	126,941	136,692	146,915	158,392	170,493	1,309,634
		TOTAL	850,491	864,091	878,066	894,713	917,376	937,516	956,340	978,210	1,000,913	997,800	729,523	10,005,039
BALANCE			- 362,991	- 307,691	- 245,509	- 178,063	- 65,358	37,958	116,682	222,112	339,272	495,948	932,720	985,080

Scenario 2														
		YEAR:	1	2	3	4	5	6	7	8	9	10	11	TOTAL
PERFORMANCE/ASSUMPTIONS														
Visitors			100,000	101,000	102,000	103,000	104,000	105,000	106,000	107,000	108,000	109,000	110,000	1,155,000
Income per Visitor		£	10.00	10.25	10.51	10.77	11.04	11.31	11.60	11.89	12.18	12.49	12.80	
Rate of increase			1.025	1.025	1.025	1.025	1.025	1.025	1.025	1.025	1.025	1.025	1.025	
Cost inflation			2.0%	2.0%	2.0%	2.5%	2.5%	2.5%	3.0%	3.0%	3.0%	3.5%	3.5%	
Variable cost per visitor			1	1.02	1.04	1.07	1.09	1.12	1.15	1.19	1.22	1.27	1.31	
INCOME														
Combined Income														
		TOTAL	1,000,000	1,035,250	1,071,638	1,109,197	1,147,965	1,187,979	1,229,275	1,271,894	1,315,875	1,361,261	1,408,093	13,138,426
EXPENDITURE														
Repayment			125,491	138,040	151,844	167,028	183,731	202,104	222,315	244,546	269,001	266,311	-	1,970,411
Interest			200,000	187,451	173,647	158,463	141,760	123,387	103,176	80,945	56,490	29,590	-	1,254,909
Sinking fund (Dilapidations)			100,000	100,000	100,001	100,002	100,003	100,004	100,005	100,006	100,007	100,008	100,009	1,100,045
Fixed costs			350,000	357,000	364,140	373,244	382,575	392,139	403,903	416,020	428,501	443,498	459,021	4,370,040
Variable costs			100,000	103,020	106,121	109,840	113,679	117,642	122,325	127,183	132,223	138,118	144,264	1,314,415
		TOTAL	875,491	885,511	895,753	908,577	921,748	935,276	951,724	968,701	986,222	977,525	703,293	10,009,820
BALANCE			124,509	149,739	175,885	200,621	226,218	252,703	277,551	303,193	329,653	383,735	704,800	3,128,606

Social Return on Investment

Increasing the financial return, without further investment to drive up visitor numbers, is likely to require an increase in either the entrance fee or average spend per visitor. However, increasing such costs will begin to undermine the affordability of the museum and therefore its social purpose and public benefit. If it could be argued that its purpose is to benefit local people and the scientific community then a premium commercial service/experience could be offered to non-resident non-scientific visitors. However, this adds further complexity to the operating model. An alternative would be to address the issue of accessibility through targeted workshops and open days and/or outreach work. This would make the day to day operation of the museum more straight forward but create another service to be managed.

In accordance with the Social Value Act, an assessment of Social Return on Investment will need to be undertaken prior to any formal procurement exercise. This need not be onerous and may well generate a fresh perspective on the emergent options. This document and its underpinning research have considered most of the issues which need to be addressed to fulfil this requirement.

Further potential

It is worth noting, that there could be other income streams derived from dinosaur related trading that would not impact the core public benefit of access to the collection. These are likely to relate to a development in the museum's Business-to-Consumer on-line trading capacity. It may also be possible to develop a Business-to-Business service or product through operating the museum e.g. preparation of artefacts. Such ventures would require sufficient time (probably 3-5 years) to develop before any income could be relied upon and they would also require further investment during start-up.

4. Options

4.1 Overview

As indicated above, the key questions to answer at this stage are:

- Should the council continue to operate the museum in-house?
- If not, should it sell or lease the land and/or building, or procure a partner?
- If it is to procure a partner, what is their role and what process should be adopted?
- How are these decisions to be made?

These create options to be assessed in sequence while considering the issues above.

4.2 Operating model

4.2.1 Introduction

Operating Models highlighted by Soft Market Test Exercise were:

1. Local start-up not-for-profit (e.g. 'Friends' forming a Trust) takes control by asset transfer following IWC repairs;
2. Established regional not-for-profit (e.g. an existing Museum in Hampshire) takes control by asset transfer;
3. Business acquires land or building to operate attraction and related commercial activity and then provides space (e.g. sub-lets building) for not-for-profit to run accredited museum;
4. Business invests in museum so as to operate attraction associated with museum in building and/or in its surroundings (e.g. lease or licence for sufficient space for a themed ride);
5. Retail (digital & physical) &/or catering contracts let to generate new income streams;
6. IWC commissions management services to improve performance;
7. Investment secured as loan or grant and repaid normally or via profit share in JV.

Investment offers ranged from specific sums of £0.2M-0.5M to some seeking up to a £10M grant to secure the future of the museum, and some broader offers of Gifts In Kind or similar.

Through this exercise it was also pointed out that revenue (rather than capital) models of rejuvenation were available through incremental improvements. This theme was stressed further in later stakeholder engagement that highlighted the potential in the continuing development of the nascent Discovery Bay partnership. This is a partnership between attractions, businesses and other local organisations who already have an interest in the wider site. It is built on the premise that by pooling their investments and promotional activity they can create the impression of a single attraction so that the whole becomes greater than the sum of the parts. This suggests a useful minimum bar of investment of circa £1M (inc. committed IWC budget) to modernise the museum without the need of creating a greater

attraction with the museum itself. However, this approach may not generate sufficient impact in the time-scale desired to support the aims of the regeneration strategy.

The Stakeholder Engagement exercise also highlight considerable interest in the formation of an Island-based Trust to take the museum forward. This was seen by many as a way to ensure the ongoing not-for-profit status (and therefore accreditation) of the museum while insulating the Isle of Wight Council from operational risk and freeing the museum from the political uncertainties of democratic control. It was felt that is the overall not-for-profit governance arrangement were addressed first then the detail of the role of commercial partners (if any) in the day-to-day operation of the museum could be addressed later. Although there would always be uncertainty around the sustainability of newly formed organisation there are examples of this working well on the Island in recent times e.g. Shanklin Theatre. However, as this project is also concerned with the wider regeneration of The Bay, there is a risk that a new governing body may not concern itself with this wider agenda without being tied into such an obligation in some way.

This diverse range of potential models makes it difficult to identify the most appropriate solution, so first it is necessary to clarify the role the IWC might play in any such solution:

4.2.2 Investor and Operator

In the current financial situation, it is first necessary to consider what is possible before one considers what is preferable.

The financial analyse above suggests it would be possible to run the museum on a cash flow neutral basis after investment, particularly if borrowing at rates that are more normal within the public sector (e.g. 3-4%). It may then be possible as to generate a surplus from the museum, once it has stabilised.

While IWC can borrow more money for an appropriate financial return, careful consideration will have to be given to servicing such debt during the construction period. Although, there seems scope to appropriately phase draw-downs to make such finance manageable.

If it is possible, is it preferable? It is an approach with considerable risks such as, the limited initial budget of £2M, potential overspend on the build, and the possibility of eventual poor commercial performance. Maintaining the service in-house also means that the museum will not benefit from new commercial perspectives and systems from an external organisation. It may also be politically unpalatable to invest so much money in a non-statutory service when areas such as social services are having to be cut-back significantly.

As an investment, it seems to have the potential to generate significant income for the council once the debt has been repaid. Over the 20-year period, prior to the next scheduled investment, this could amount to £5-10M. As such, even considering the risks, the investment could result in a good mid-term return on investment with the entire asset retained and a £2M sinking fund banked.

4.2.3 Vendor or Landlord in a Land Transaction

A simple low-risk alternative would be to sell or lease land and/or the building through a property transaction. It would be in-keeping with the IWC regeneration strategy to retain some aspect of the freehold, so a ground rent can be recovered as a minimum.

The site is approximately 125,000 sq ft so to match the annual income above the site would need to generate an income of 80p per sq ft. As this is the entire site including a sloping woodland and a severely restricted car park, it may be wise to consider the income from the museum and its curtilage (approx. 45,000 sq ft). This would need to generate a return closer to £2.25 per sq ft. If internal floor space was used (approx. 15,000 sq ft) then a rate of £6-£7 per sq ft is required. Shops in the Bay Area have been recently advertised at £10-£15 per sq ft so these rates are very competitive. It is also worth remembering that the requirement to house an accredited museum on the site will deflate the rate which can be reasonably expected.

While IWC would have surrendered a significant amount of control of the total asset and would have little or no sinking fund, it would still hold the land and should have secured the asset at its current value through appropriate dilapidations clauses.

This is a very low-risk financial strategy with the main risk being the operator might fail and a new operator would have to be found. A further potential benefit of this approach is that a property lease/sale process is less complicated and costly than a procurement process. This approach does however increase complexities in the management of the collection, influence over the design and build process, and the securing of public benefit in the long-term.

This approach would also reduce the influence that IWC could have over the wider development of the TOA.

4.2.4 Partner in a Joint Venture

As the staffing costs associated with the museum are not a major consideration it is unlikely that there will be any significant advantage in sub-contracting the operation on the museum. If the primary objective is to invest in Dinosaur Isle and the surrounding area but IWC will not or cannot borrow sufficient money to make that investment, then IWC must attract an investor on a profit and risk share basis or some similar arrangement.

Depending on how closely the operator and IWC are working together, profit share arrangements can be difficult to manage particularly in relation to cost base and agreed actual profit. As such, a hybrid land transaction may be more appropriate with a mix of agreed fixed costs and risk share. This may even include a pre-agreed tapered rent or other income that increases over-time once certain basic thresholds have been met. This creates some certainty for IWC while creating the potential for enhanced profit for the operator.

This is undoubtedly the most complicated operational model and is also very likely to require a procurement exercise to identify a potential partner. Operationally it is also likely to result in a separation between curatorial staff and commercial staff which may cause tensions and management issues in a small facility such as this. Understandable delineation may ease this e.g. commercial staff operating an external park with curatorial staff in the museum.

As would be expected, income levels should be guaranteed to be more than if the land were simply leased but should have the potential for even greater income to justify the greater organisational involvement in the venture. There is a risk that the IWC overheads committed to the venture may go unrewarded if commercial performance falls below expected levels.

4.2.5 Franchiser

The Council could license the use of the collection and other materials (including branding, training resources and some intellectual property); and parts of the building or site to an operator for a fee. Fees can vary significantly in size and type and can include an initial premium with annual fees and some form of profit share.

This approach would have to be navigated with considerable care so as not to contravene the standards and spirit of operating an accredited museum and as such may simply become more akin to a merchandising option.

Buying into an unproven franchise model may be viewed as being on a higher-risk shorter-term basis than leasing or buying a building and so may not attract significant investment early-on. It can also be difficult to maintain a property licence for any significant period without it being regarded as a sham-lease. As such, it may require the Council to play an active role in facilities management and may require that it funds the renovation and offers the fully functioning museum as a facility for use by the franchisee.

There is no reason why the property and franchise concepts could not be decoupled so that each element is undertaken separately. This may lead to a separate licence for the use of merchandise and brand along with a more traditional lease on the property. Ultimately, it would also be possible to offer the franchise to any suitable operator/s with an appropriate venue or venues, allowing the existing building to be used for a different purpose.

4.2.6 No Change

This is essentially the do-nothing option. It assumes that IWC will be able to run the museum without further significant investment. There is a risk that at some point IWC will have to close the museum as the building may become not fit for purpose. If this were to happen, the site may then have to be sold as a derelict site for redevelopment. This does create an opportunity to use receipts from such a sale to invest in another museum to host a scaled down selection from the collection. However, such a scenario is likely to have a negative impact on the local economy, and the Island's reputation; and would not achieve many of this project's regenerative objectives. It has also been the case in recent years on the Island

that such facilities do manage to sustain themselves (even if in a dilapidated state) for a long time before emergency action is required.

As such, this option could be adopted for the time-being while grant funding or similar is sought. This could be successful, but it is high-risk as the building is aging rapidly. This would be particularly problematic if the operational window is shorter than anticipated and funding takes longer to secure than anticipated.

In each of the models above we have assumed comparable public benefit but this would require active management in the Land Transaction and Joint Venture options and may lead to disputes and associated costs.

Refining the options above would be subject to discussion with interested parties but procurement documents should make it clear that the council will be seeking to explore a continuing interest.

4.3 Procurement Process

The options available are characterised by the following:

- **Reach** into 'markets' i.e. how many potential bidders might be notified
- **Compliance** i.e. compliance with varying procurement regimes, existing covenants and funding arrangements
- **Staging** of the process to assess initial interest and then progressively test levels of commitment and appropriateness. This must be balanced against process duration and complexity.

Reach & compliance options

At this point in time we could adopt the following approaches:

- Adopt a European-wide OJEU compliant process to cover all potential possibilities
- Adopt a nationwide competitive process to address most possible outcomes
- Adopt a local process to minimise complexity and reach most interested parties
- Delay the process to develop a more specific process to address specific needs of this situation (as we still lack clarity)

It is of note that the Soft Market Testing Exercise, despite limited promotion, had two international responses which suggests international reach is appropriate. However, this won't necessarily require a full prescribed OJEU process. As mentioned earlier, a museum service falls under the Light Touch Regime (Regulations 74-77 of the Public Contracts Regulations 2015) which allows far greater flexibility of process allowing the Council to design its own procurement process. This can be based on an existing model but doesn't have to follow a prescribed detailed process. However, it does require appropriate notice is given which would create the opportunity for at-least European promotion without any additional complexity in-terms of process.

As indicated earlier in this document, there is still a wide range of potential operating models that seem viable and so it would seem wise to explore these further before limiting IWC's options. However, delaying the process further is unlikely to generate much more useful further information as it has been interaction with others that has recently been of most value. As such, a process that enables this while progressing the actual procurement would be beneficial. 'Competitive Procedure with Negotiation' and 'Competitive Dialogue' are processes that exists for this purpose as can be seen from the Procurement Decision Tree overleaf. 'Competitive Procedure with Negotiation' the simpler of the two as it is written into the Public Contracts Regulations (PCR) 2015 and is likely to make a good basis for a project specific process under the Light Touch Regime.

Staging options

Key staging options include:

- Single-stage to minimise complexity
- Two-stage to better gauge interest and create more significant lead-in time for bidders without significant complexity e.g. PQQ then tender
- Multi-stage Formal Process to drip-feed information as available and progressively reduce the number of bidders who can then invest more effort in progressive rounds

A multi-stage process would support the needs of this project to allow for ideas, and possibly partnerships between bidders, to develop. This approach could work using a “competitive procedure with negotiation” style process. However, this process need not be excessive and should be built on a basic long-list to short-list to selection model with an opportunity for clarifying in each stage.

Procurement Decision Tree



5. Recommendations

Due to the range of potential routes and scope for innovation in the nature of the opportunity and potential for partnerships;

IT IS RECOMMENDED that:

1. IWC brief the appropriate portfolio holders and make preparations to present an options paper for authority to proceed;
2. IWC commits to a programme of running repairs to enable the facility to run and prevent further dilapidations during the 'procurement' process;
3. IWC further explore the viability of IWC investing in the property;
4. Further work is undertaken to examine use of nearby IWC land-holdings including car parks;
5. If IWC decide to seek an external investor or other partner/s, they initiate a Competitive Process with Negotiation style process under the Light Touch Regime as detailed under Regulations 74-77 of the Public Contracts Regulations 2015 as outlined in this paper once appropriate authority to proceed is granted;
6. In support of the above, further work is undertaken with the steering group, overseen by the Regeneration Board, to develop the documentation for this process. This will include the development of Key Performance Indicators to assist in the assessment of all criteria and especially those concerning 'Quality'.