

Folkestone & Hythe District Council

**Leisure Management Contract:
Tender Evaluation Report**

10 December 2021



THE
SPORTS
CONSULTANCY

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1. Introduction

- 1.1 The Tender process for Folkestone & Hythe District Council's (the Council) Leisure Management Contract formally commenced on 16 August 2021 with the publishing of the *Find a Tender Service* notice reference DN543497 via the Kent Business Portal (KBP). Preceding this, a series of informal soft market testing sessions with potential Tenderers took place in June 2021.
- 1.2 This report, prepared by the Council's advisers, The Sports Consultancy (TSC), sets out a brief summary of the proposals received and the evaluation by the Council's team.
- 1.3 The term of the contract is 10 years (scheduled to commence on 1 September 2023) with an option at the absolute discretion of the Council to extend the contract period by up to a maximum of five additional years. The contract relates to the management of the new Hythe Leisure Centre, which is due to open in September 2023.
- 1.4 The new Centre will form part of a wider development (that includes 150 new homes) on the land between Princes Parade and the Royal Military Canal in Hythe. It will replace the existing Hythe Swimming Pool, which is located on South Street in Hythe, about a mile to the west of the new site. It was built in 1974 and has reached the end of its useful life. It is currently managed directly by the Council. It is intended that this arrangement will continue up until the point that the new Centre opens and the existing staff and customers will transfer across. There is no requirement in the new contract for the successful operator to take on the management of the old facility for any period.
- 1.5 The management contract was procured as a single stage process, whereby the Selection Questionnaire (which detailed the Council's minimum requirements) was submitted at the same time as the ITT response on the 22 October 2021.
- 1.6 Following initial expressions of interest from eight companies, two submitted a tender:
- **Wealden Leisure Ltd** (trading as "Freedom Leisure" and hereinafter referred to as "FL")
 - **Sports and Leisure Management Ltd** (trading as "Everyone Active" and hereinafter referred to as "SLM").
- 1.7 Two further operators (Places Leisure and Serco Leisure) actively engaged in the Tender stage of the project but withdrew close to the submission deadline due to the Council's requirement for the operator to take on full utility risk (tariff and consumption risk in the context of the significant volatility in the energy market that was experienced in autumn 2021).
- 1.8 The tenders from FL and SLM were received on 22 October 2021 via the KBP. Both passed the Minimum Requirements assessment, which comprised checks on their economic, financial and legal standing, as well as their experience of operating similar contracts.

2. Tender Evaluation

- 2.1 The award of the contract is on the basis of the most economically advantageous tender (MEAT) to the Council. This approach allows for factors such as quality, service delivery,

innovation and customer services to be taken into consideration, as well as price. Overall, the tender evaluation was split between price/commercial and technical/quality considerations as follows:

- Commercial: 30%
- Technical: 70%

2.2 All Tenderers were provided with instructions and the evaluation criteria as part of the Tender documentation issued via the KBP. They were able to submit written clarifications through the KBP, which the Council responded to on a regular basis throughout Tender period. They were also encouraged to visit the existing Hythe Swimming Pool and the local area to ensure their proposals were fully informed and based on robust local assumptions. Furthermore, there were two sets of online clarification meetings via Microsoft Teams, which both Tenderers took advantage of.

2.3 The agreed evaluation criteria and weightings are set out in Table 1.

Table 1: Tender Evaluation Criteria and Weighting

TECHNICAL CRITERIA	Weighting
1. Programming and Pricing	10%
2. Asset Management and Cleaning	10%
3. Sports Development, Health & Wellbeing and Outreach	8%
4. Marketing, Customer Care and CRM	10%
5. Staffing	8%
6. Financial Management, Reporting and IT Systems	4%
7. Environmental Sustainability	10%
8. Demonstrating Social Value	8%
9. Contract Mobilisation	2%
Technical weighting	70%
COMMERCIAL CRITERIA	Weighting
1. Proposed Management Fee (annual average over 10-year term)	26%
2. Surplus share	4%
Commercial weighting	30%
Total weighting	100.0%

Commercial Evaluation (30%)

2.4 The basis of the commercial evaluation was the Tenderers submitted 10-year financial model, which was submitted via a detailed financial template (developed by TSC) together with supporting commentary to explain the underlying assumptions. The financial model covered annual income and expenditure projections and allowances for operator central costs, profit and mobilisation costs and the consequent management fee offer to the Council. It is important

to note that the successful Tenderer's annual management fee proposal will be written into the final contract and subject to annual indexation through the contract period.

- 2.5 Both Tenderers' management fees were scored by reference to the more advantageous of the two to the Council (the "Best Management Fee"). The Best Management Fee scored the maximum 26% and lower Tender's score was using the following formula (and rounded to one decimal place):

(Tenderer's Proposed Average Annual Management Fee ÷ Best Proposed Average Annual Management Fee) x 26%

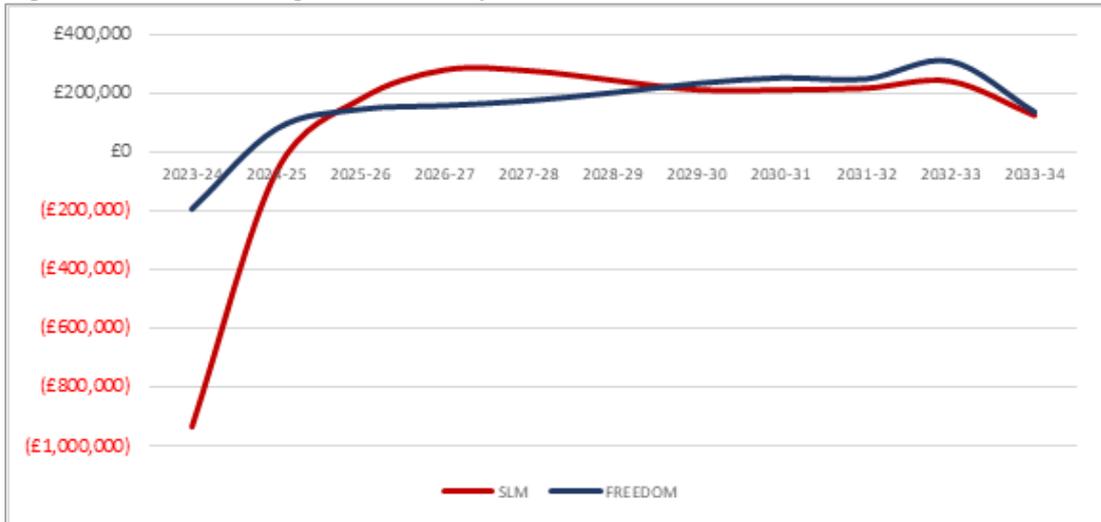
- 2.6 The scores for the management fee are set out in Table 2.

Table 2: Average Annual Management Fees and Scoring

Tenderer	Freedom Leisure	Everyone Active (SLM)
2023-24 (Sep-Mar)	(£193,415)	(£935,787)
2024-25	£79,706	(£66,126)
2025-26	£146,716	£182,317
2026-27	£159,079	£281,778
2027-28	£176,115	£279,193
2028-29	£203,519	£246,326
2029-30	£235,145	£213,963
2030-31	£253,712	£213,918
2031-32	£249,846	£219,394
2032-33	£310,402	£243,196
2033-34 (Mar-Sep)	£137,608	£126,382
Average Annual Management Fee	£175,843	£100,456
Aggregate Management Fee	£1,758,431	£1,004,556
Score	26.0%	14.9%

- 2.7 Although scored on the basis of the average management fee across the contract period, in practice it will be paid on a profiled basis as set out in Table 2. This is also shown in Figure 1.

Figure 1: Annual Management Fee Payment Profile



2.8 Further details on the Tenderers' financial submissions and how their management fee offers are reached are set out in Table 3.

Table 3: Overview of Financial Submissions

	FL (10-year average)	SLM (10-year average)
INCOME		
Swimming	£8,464,972	£6,821,643
Health & Fitness	£9,488,689	£8,375,640
Other	£120,000	£96,500
Secondary Spend	£2,499,956	£2,150,000
TOTAL INCOME	£20,573,618	£17,443,783
EXPENDITURE		
Staffing	£9,362,457	£8,421,282
Utilities	£2,741,247	£2,478,988
Repairs & Maintenance	£954,280	£618,400
Equipment	£521,136	£53,500
Management Costs	£3,060,054	£2,027,678
Cost of Sales	£921,597	£1,075,000
TOTAL EXPENDITURE	£17,560,770	£14,674,849
NET POSITION	£3,012,848	£2,768,934
Central Support Costs	£822,945	£1,046,627
Profit	£411,472	£697,751
Mobilisation Costs	£20,000	£20,000
MANAGEMENT FEE (payable to Council)	£1,758,431	£1,004,556

2.9 The remaining 4% of the commercial evaluation was based on the Tenderers' Surplus Share proposals. The Surplus Share sets out a mechanism by which any actual financial performance above the baseline management fee will be shared with the Council. Tenderers were asked to set out how they would share it based on the following three tranches:

- The Council share of the first £50,000 tranche of any surplus
- The Council share of the second £50,000 tranche of any surplus
- The Council share of any surplus over £100,000.

2.10 The Tenderers' proposals are summarised in Table 4.

Table 4: Tenderers' Surplus Share Proposals

	FL	SLM
Council share of FIRST £50,000 tranche	£50,000	£35,001
Council share of SECOND £50,000 tranche	£50,000	£35,001
Council share of any surplus over £100,000	95.0%	65.0%
WEIGHTED SCORE	4.00%	3.12%

Independent benchmarking of financial proposals

2.11 TSC maintains the *Facilities Index*, which is a database with almost 1,600 financial years' of trading data from over 550 public leisure facilities in the UK. It enables us to benchmark the Tenderers' projections against key performance indicators (KPIs) for operating income and costs (such as health and fitness income per fitness station, swimming income per square metre of pool water space, staffing costs as a percentage of income, etc). TSC has reviewed both financial submissions against the average KPIs from the *Facilities Index* and the output is summarised in Table 5.

Table 5: KPI Benchmarks

	FL	SLM	TSC Benchmark
Income per visit	£4.45	£5.04	£5.06
Swim income per sqm of water space	£1,902	£1,533	£1,432
Health & fitness income per station	£9,489	£8,376	£12,907
% cost recovery	117.2%	118.9%	107.2%
Members per station	23	25	28
Staff costs as % of income	45.5%	48.3%	44.0%
Utilities costs per sqm	£90.98	£82.28	£48.71
Repairs and maintenance per sqm	£31.67	£20.52	£25.57
Profit and central support costs as a % of income	6%	10%	10.3%

2.12 As can be seen from the data in Table 5, the analysis shows that the two financial Tenders were pitched in line with average benchmark levels other than for the following:

- Swimming income (FL): FL has taken a more optimistic view of what could be achieved from swimming; however, their projections are still within an acceptable range and represent between the top 15% (£1,850) and top 10% (£2,051) of TSC's benchmark data
- Utilities costs (both Tenderers): both Tenderers have pitched their utilities costs at significantly higher than average benchmark levels. This is a result of two factors: firstly, the Council's requirement that the operator takes on both consumption and tariff risk (and hence the need for them to price in an element of risk of tariff rate fluctuations over the contract period); and secondly, the recent significant increases in tariff rates that have been seen in the energy market, which will have led them to take a more cautious approach to utilities costs
- Profit and central support costs (FL): FL have taken a more generous view (from the Council's perspective) of the amount they will take out of the contract in terms of their profit margin and allocation to central cost overhead. Of the two, their allowance for central costs is close to the benchmark (4% compared to 5%) whereas their profit margin is significantly lower (2% compared to 5%), which will be primarily a result of their status as a non-profit distributing body.

2.13 It is worth stressing that, regardless of whether FL achieves its level of projected financial performance, it will be contractually obliged to pay the tendered annual management fees to the Council in line with the agreed annual profile.

Technical (Quality) Submissions (40%)

- 2.14 As set out earlier, the technical aspects of the tenders were evaluated by means of the Tenderer's responses to nine Method Statements. They, along with their weightings, are set out in Table 6.

Table 6: Technical Criteria Weightings

TECHNICAL CRITERIA	Weighting
1. Programming and Pricing	10%
2. Asset Management and Cleaning	10%
3. Sports Development, Health & Wellbeing and Outreach	8%
4. Marketing, Customer Care and CRM	10%
5. Staffing	8%
6. Financial Management, Reporting and IT Systems	4%
7. Environmental Sustainability	10%
8. Demonstrating Social Value	8%
9. Contract Mobilisation	2%
Technical weighting	70%

- 2.15 Tenderers' Method Statement responses explained how they would fulfil their responsibilities in each area and achieve the best outcome in the delivery of the contract. Information and guidance was provided to assist the tendered to complete each one. Where appropriate, Tenderers were advised to reflect in their responses the Council's priorities, the local demographics and to provide direct associations to the contract specification. The successful Tenderers Method Statement responses will become a schedule to the legal contract that they sign with the Council.
- 2.16 Each Method Statement was scored out of a maximum of 5 marks and the score was weighted on the basis of its relative importance as set out in Table 6. Each Method Statement was reviewed and evaluated by two to three different people (Council officers and TSC staff) and the scores of each evaluator were then compared and a moderated score agreed. The weighted scores are set out in Table 7.

Table 7: Technical Criteria Weighted Scores

TECHNICAL CRITERIA	Weighting	FL	SLM
1. Programming and Pricing	10%	8.0%	8.0%
2. Asset Management and Cleaning	10%	6.0%	8.0%
3. Sports Development, Health & Wellbeing and Outreach	8%	6.4%	6.4%
4. Marketing, Customer Care and CRM	10%	8.0%	8.0%
5. Staffing	8%	6.4%	6.4%
6. Financial Management, Reporting and IT Systems	4%	2.4%	2.4%
7. Environmental Sustainability	10%	8.0%	8.0%
8. Demonstrating Social Value	8%	4.8%	4.8%
9. Contract Mobilisation	2%	1.2%	1.6%
Technical weighting	70%	51.2%	53.6%

3. Overall Evaluation Scores

3.1 Based on the Commercial and Technical evaluation set out above, the overall evaluation scores for the two Tenderers are summarised in Table 8.

Table 8: Overall Evaluation Scores

Tenderer	Commercial	Technical	Overall
FL	30.0%	51.2%	81.2%
SLM	18.0%	53.6%	71.6%

3.2 The combined Commercial and Technical Criteria scores identify FL as providing the most effective and economically advantageous tender. It is therefore proposed that FL be awarded the contract.

4. The Preferred Tenderer (Freedom Leisure)

4.1 FL currently operates over 100 sports and leisure centres on behalf of 25 local authority partners. They have extensive experience operating and mobilising coastal facilities, including the Littlehampton Wave in West Sussex. They also have local presence, operating the nearby Sandwich Leisure Centre and Stour Centre in Ashford, Kent. They have a strong track record

in the local authority leisure management market and have been recently appointed to operate Great Yarmouth Borough Council's leisure portfolio, including their new coastal facility, the Marina Centre (due to open July 2023).

- 4.2 As part of their Technical (Quality) submission, FL included the following that are worth noting:
- The recruitment of a full-time Active Communities Manager, who will be responsible for developing relationships and delivering programmes beyond the new Centre
 - A commitment to working with the local Clinical Commissioning Group, police, youth services, local clubs and groups, etc to delivery programmes and activities
 - A comprehensive learn-to-swim programme
 - One apprenticeship and four work experience placements per year
 - A commitment to using local suppliers where possible, e.g. currently 60% of their reactive and planned preventative programmes are delivered by local suppliers
 - A commitment to sourcing green energy (through their supplier Haven Power)
 - Achieving ISO14001 accreditation for the new Centre
 - Achieving 50% recycling and waste management
 - Implementing a Cycle-to-Work scheme for all employees.

5. Key Tendering Assumptions

- 5.1 Freedom Leisure's financial and technical proposals took into consideration, inter alia, the following:
- The terms of the draft legal contract (based on Sport England's *Leisure Services Delivery Guidance*) issued with the procurement documentation
 - The required services as set out in the Council's Services Specification
 - The operator's responsibilities for maintaining, repairing and replacing the leisure centre assets in accordance with the Asset Management Responsibilities Matrix
 - The operator assuming full responsibility for consumption and tariff risks for utilities
 - The staffing of the facility and the transfer staff from the existing Hythe Swimming Pool under TUPE
 - Appropriate assumptions in relation to business rates (NNDR) and VAT
 - An allowance for operator profit and a contribution to central costs
 - The Council retaining control of certain user prices (pay to play health and fitness gym session (adult, junior, senior citizen/concession and disabled) and pay to play swimming session (adult, junior, senior citizen/concession and disabled))
 - The operator is required to provide a concessionary pricing scheme that covers full-time students, those on Job Seeker's Allowance, those on Income Support, those on Employment and Support Allowance, those on Working (Family) Tax Credit, those in receipt of a Personal Independence Payment and members of HM Armed Forces

- The operator will be responsible for managing and keeping tidy the car park, which will be dedicated for the Centre.
- 5.2 The operator is also contractually obliged to prepare an annual marketing plan for the Council's sign off, which will include detailed proposals for the programming of activities and participation within the facilities of members of the Council's specified target user groups.

6. Recommendation and next steps

- 6.1 It is recommended to the Council that Freedom Leisure be awarded the leisure management contract on the basis of the evaluation of the tenders as summarised in this paper.
- 6.2 If this recommendation is passed by Cabinet on 26 January 2022, the Council can issue notification of the award decision to each of the Tenderers and, in accordance with the Public Contracts Regulations 2015, after a mandatory standstill period of ten calendar days, the contract can be signed with FL.