



Folkestone & Hythe District Council

**Princes Parade Leisure Centre
Business Case**

Final Report

16 January 2019



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INTRODUCTION

The Sports Consultancy (TSC) in association with Hadron Consulting (Hadron) was appointed by Folkestone & Hythe District Council (the Council) in July 2017 to complete a business case for the proposed new leisure centre at Princes Parade (the new centre) in Hythe, to the west of Folkestone. The new centre will replace the ageing Hythe Swimming Pool, which is located about 1½ miles to the west along the seafront (on South Road).

The Council has already undertaken a significant level of design work for the new centre (to RIBA Stage 2) and submitted a planning application on 23 August 2017. The application was approved on 16 August 2018. The purpose of this commission is to provide the remaining information for the project's business case to inform a report to the Council's Cabinet in early 2019. At this meeting the Council will make a formal decision to proceed with the project.

The key elements of the brief were as follows:

- To review the financial performance of Hythe Swimming Pool
- To undertake a health and fitness market assessment for the new centre
- To prepare income, expenditure and throughput projections for the new centre
- To review the management options for the new centre
- To undertake a soft market testing exercise with leisure operators
- To complete an affordability analysis for the project and cash flow assessment

- To advise on the future programme and project management requirements.

The analysis and findings of these stages are presented in Sections 2 to 10.

Section 2: Project Background

PROJECT BACKGROUND

Hythe is a small coastal town located about 4 miles to the west of Folkestone in Kent. It has a population of about 14,500 (2011 Census). The existing Hythe Swimming Pool is a small facility that was built in 1974. It comprises the following:

- 25m, 5 lane pool
- Small 36 sqm learner pool
- Small health and fitness gym (circa 9 stations).

The centre has reached the end of its useful life and the roof in particular has required significant investment in recent years. In the summer of 2016, the centre was closed for three months to allow £184,000 of repairs to the roof. In November 2016, part of the roof was then damaged by high winds. As a result, the Council has taken the decision to consider the feasibility and business case for replacing the pool with a new wet and dry centre, thus delivering a long-term solution for the town.

A site for the new centre has been identified at the eastern end of Princes Parade, close to the junction with the A259 Seabrook Road. It is bordered by Princes Parade and the seafront to the south and east, the Royal Military Canal to the north and Hythe Imperial Golf Course to the west. The site is currently undeveloped, open space other than Seapoint Canoe Centre at the eastern end (see Map 1). It was previously used as a Council waste tip, which has implications for the development. It should also be noted that the canal is listed as a feature of national importance and is scheduled under the *Ancient Monuments and Archaeological Areas Act 1979*. This means that the site is sensitive from a planning perspective and the proposals for the leisure centre must take this into account.

The Council's proposal is that the new centre will be developed at the eastern end of the site and the remainder of it will be sold for housing

development (150 units) and the proceeds of this sale will contribute to the capital cost of the new centre.

The boundary of the whole site is shown in Map 1.

Map 1: The Site



Designs for the new centre have been developed by GT3 Architects. The proposed facility mix is as follows:

- 25m x 6 lane competition swimming pool
- Spectator seating (100 people)
- 12m x 4 lane teaching pool
- swim village changing /dry change facilities
- 100 station fitness gym
- 3 fitness studios

Section 2: Project Background

- Café/vending area
- 185 spaces and 2 coach bays.

The designs have been developed to RIBA Stage 2 to inform the Council's planning application for the whole site, which was approved on 16 August 2018. As part of the scheme, it is proposed that Princes Parade will be re-routed to run to the north of the new centre and residential development (between them and the canal). This will mean an uninterrupted passage between the new centre and housing and the seafront. The latest building floorplans can be seen in Figure 1 and Figure 2.

Alongside the designs, a capital cost plan has been developed by Betteridge and Milsom. The latest version (dated 7 January 2019) is summarised in Table 1 (right). As can be seen, the current estimated total cost for the new centre, including fees ██████████ based on a gross internal floor area (GIFA) of 3,013 sqm. This includes a sum of ██████████ million for incoming services (1.6 in table) and ██████████ million for site works (1.7).

In addition to the above, there is an estimated additional cost of ██████████ for site remediation works, the realignment of Princes Parade, the construction of the new promenade and associated external works, drainage and services. In total, the cost of the scheme is ██████████

It is the Council's intention that the existing centre will close immediately prior to the new one opening. The current estimate is that the new centre will open in Q4 2021. However, keeping the existing pool open for that period assumes that there are no further major issues with the condition of the building.

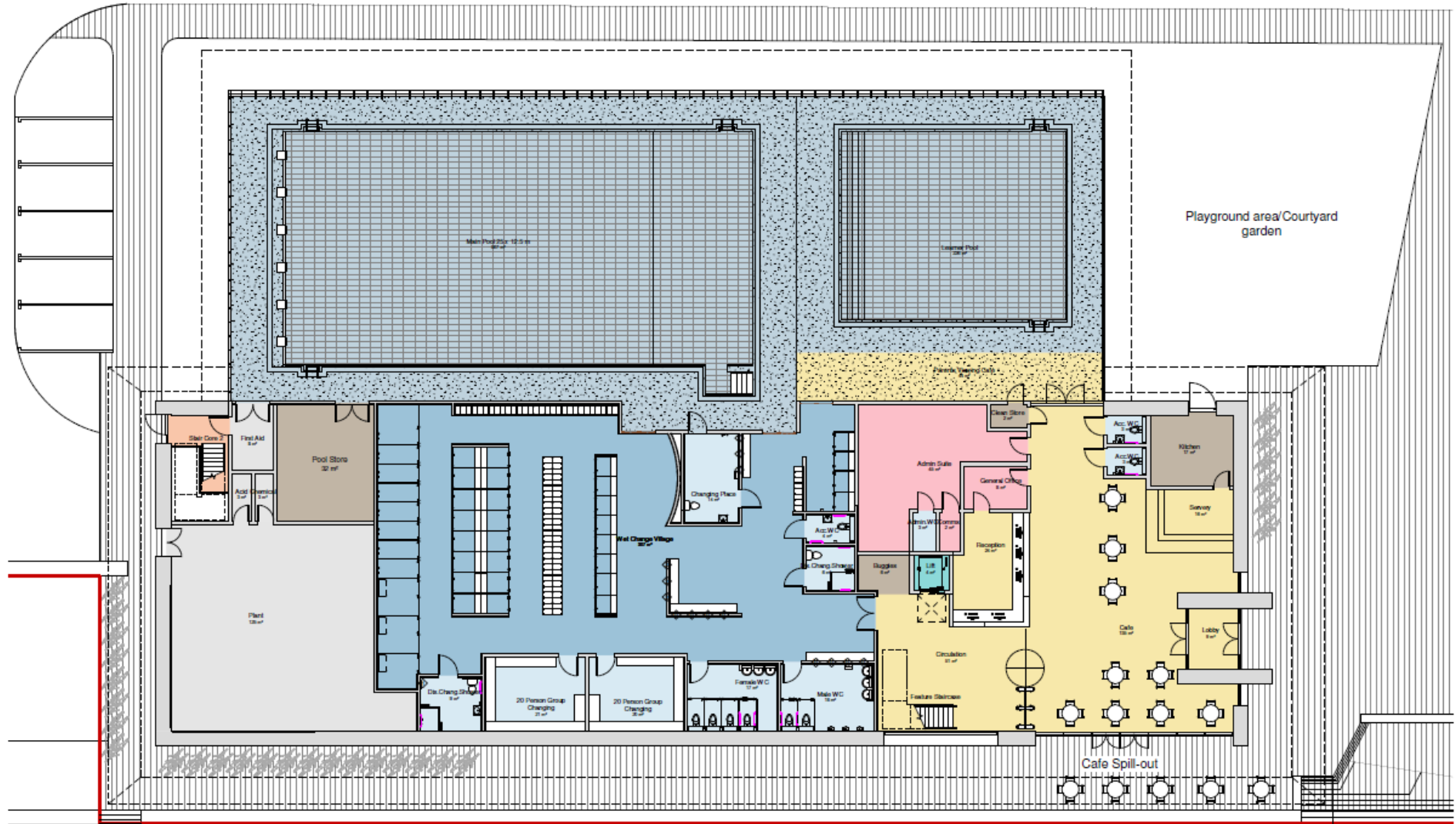
Linked to this, it is likely that the Council will be seeking to outsource the management of the new centre to a specialist leisure operator. This will be considered as part of this report.

Table 1: Latest Capital Cost Estimate

Ref	Description	Total (£)	Notes
1	Construction Works		
1.1	Enabling Works	██████	Ground Remediation
1.2	Substructure	██████	
1.3	Superstructure	██████	
1.4	Internal Finishes	██████	
1.5	Fittings, Furnishings & Equipment	██████	
1.6	Services	██████	
1.7	Site Works	██████	
Sub Total		██████	
2	Main Contractor's Preliminaries Estimate	██████	██████
Sub Total		██████	
3.1	Main Contractors's OHP (total 7%)	██████	
3.3	Framework Fee	██████	██████
(A) Construction Works Estimate (Total)		██████	
5	Risk Allowances Estimate		
5.1	Design Development Risks Estimate	██████	██████
5.2	Construction Risks Estimate	██████	██████
Sub Total		██████	
6	Main Contractor Fees / Surveys		
6.1	Pre Construction Fees		Included in 6.2
6.2	Professional / Design Fees	██████	██████
6.3	Surveys / Reports	██████	██████
(B) Contract Cost Estimate (Total)		██████	
7	Project / Design Team Fees		
7.1	Client Direct Consultant Fees	██████	██████
7.2	Other Fees / Surveys	██████	██████
Sub-Total		██████	
9	Employer Risk Allowance	██████	██████
(C) Project Cost Estimate (excl VAT)		██████	

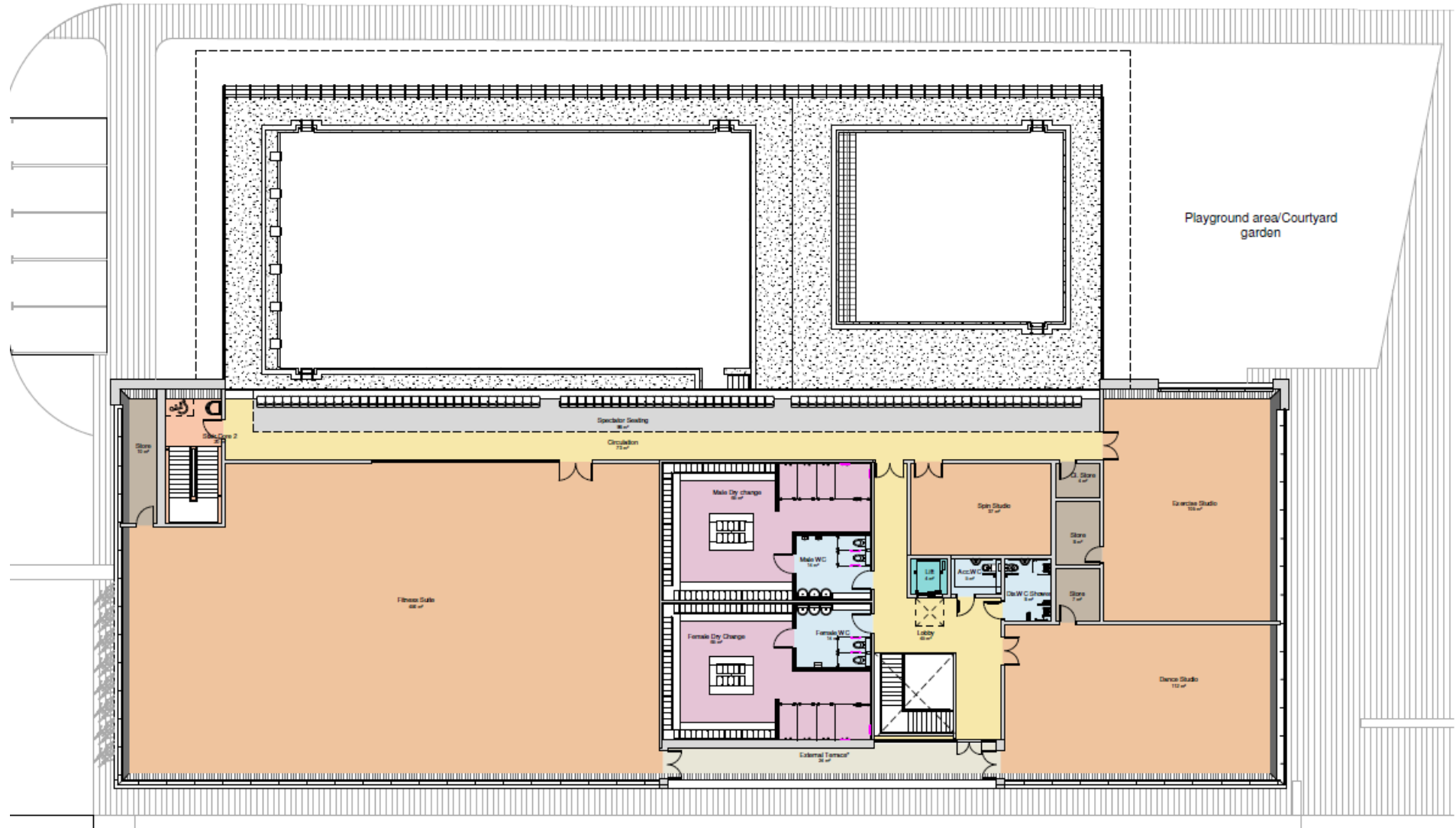
Section 2: Project Background

Figure 1: Ground Floor Plan



Section 2: Project Background

Figure 2: First Floor Plan



Section 3: Current Financial Performance

CURRENT FINANCIAL PERFORMANCE

This section considers the current financial performance of Hythe Swimming Pool. The purpose of this is to put into context some of the limitations with the existing facility and also to inform the income and expenditure projections for the new one (see Section 5).

As outlined earlier, the existing pool is managed directly by the Council. The analysis has been based on the 2014-15 and 2017-18 financial years because this is the last full-year of trading information available (due to closures in both the 2015-16 and 2016-17 periods). The financial performance is summarised in Table 2 on the right.

The financial information was analysed by comparing it with benchmarks from TSC's Operational Database. This contains over 1,100 financial records from over 400 public leisure facilities across the UK and it helps to put performance of a specific facility into context. As outlined above, the analysis was based on the 2014-15 financial year and used wetside-only facility benchmarks from the database (i.e. those facilities that comprised only a swimming pool).

The results (see Table 3) show that the facility is generating a very high income per visit; however, this does not translate into a high swimming income. Compared with the benchmark, the existing facility is performing in between the lower quartile and mean, generating £616-£720 per sqm of water space.

On the expenditure side, performance is relatively poor, which is to be expected for a facility of its age. Overall cost recovery (47%-48%) is less than the lower quartile and both utilities and repairs and maintenance costs are very high. In particular, the repairs and maintenance costs are approximately three times greater than the upper quartile benchmark, which reflects the issues there have been in recent years.

Overall, the centre is performing poorly compared to benchmarks; however, this is to be expected for an ageing facility at the end of its

useful life. However, there is a basis of swimming income, which should transfer to the new facility.

Table 2: Historic Financial Performance

Income	2014-15	2017-18
Sales	£11,822	£10,216
Memberships	£43,059	£42,012
Admissions	£63	£198
Swimming	£191,716	£223,832
H&F	£852	£1,059
Vouchers	£13,758	£12,348
Lettings	£177	£591
Other(inc)	(£42)	£0
	£261,402	£290,257
Expenditure		
Staffing	(£204,248)	(£281,297)
Other	(£32,577)	(£31,123)
Professional & Finance	(£40,832)	(£34,618)
RM	(£26,983)	(£18,025)
Utilities	(£87,156)	(£68,483)
Premises	(£3,168)	(£1,648)
Equipment & Materials	(£14,365)	(£12,430)
Cost of sales	(£7,423)	(£6,955)
Communications	(£1,269)	(£1,139)
Marketing	(£780)	£0
Insurance	(£4,043)	(£5,351)
Licences	(£619)	(£505)
Transport	£0	£0
Depreciation	(£23,333)	(£25,152)
Recharges	(£86,376)	(£126,318)
	(£533,172)	(£613,044)
Net Operational Position	(£271,770)	(£322,787)

Section 3: Current Financial Performance

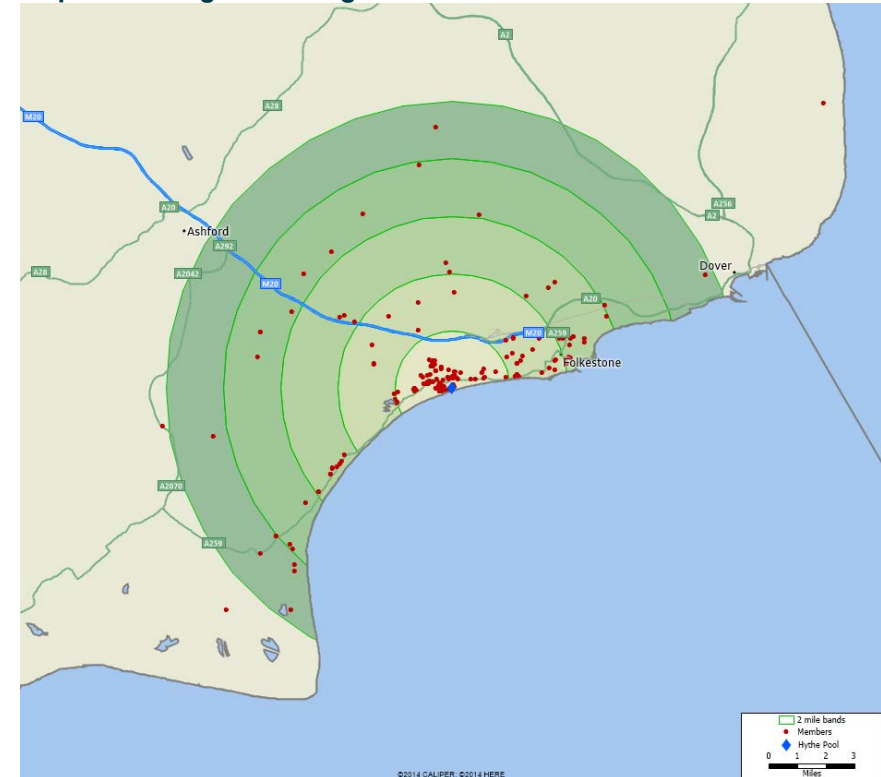
Table 3: Benchmark Analysis of Financial Performance

	Hythe Pool 2014/15	Hythe Pool 2017/18	TSC Benchmarks		
			Lower Quartile	Mean	Upper Quartile
Income KPIs					
Average income per visit	£6.32	£6.84	£2.13	£2.93	£3.65
Swimming income per sqm of water space	£616	£720	£568	£866	£982
Output KPIs					
Staff costs as a percentage of income	78%	97%	160%	123%	72%
% cost recovery	49%	47%	35%	57%	71%
Utility costs per sqm	£79.45	£62.43	£79.07	£55.15	£31.25
R&M costs per sqm	£24.60	£16.43	£25.43	£27.38	£4.41
Throughput KPIs					
Visits per sqm	38	39	54	104	117

Swimming Members

As part of the assessment of current performance, the distribution of members of the existing centre was also considered. Once again, understanding this will also help to contribute to the income and expenditure planning in Section 5. The analysis was based on the direct debit membership information the Council holds (200 in total). As can be seen from Map 2 below, most of the current members are within 4 miles of the facility. However, it does also draw in users from up to 10 miles away.

Map 2: Existing Swimming Members



Section 4: Health & Fitness Market Appraisal

HEALTH & FITNESS MARKET APPRAISAL

This section considers the local market for health and fitness facilities. As outlined in Section 2, this is an important element of the facility mix for the new centre and will be the main income-generating area. Therefore, having a clear understanding of the local market will be another area that will contribute to the revenue planning.

The health and fitness market appraisal was undertaken by the commissioning of a Latent Demand Report from The Leisure Database Company. This considers the demography of the catchment area for the proposed facility (using Mosaic groups and sub-group types) and the existing competition within that area. Based on this, they provide an estimate of the potential unmet demand for health and fitness. The full details of the report can be found in Appendix A. The following paragraphs summarise the key findings.

Catchment Area and Demographics

The population in the immediate area of the proposed site is relatively low with just over 6,000 people within a mile. Based on the scale of the new centre, the latent demand focuses on the population living within a 12 minutes' drive, which is the typical catchment area used for health and fitness facilities in non-urban locations. This is home to just under 76,000 people and of these, 63,133 are adults aged 15 and over. A 12-minute drive reaches those in Hythe, Saltwood, Sandgate, Folkestone, Hawkinge, Etchinghill and Palmarsh.

The demographics of the population are a real mixture of young and old; **Mosaic groups** E (Senior Security) and H (Aspiring Homemakers) both account for over 13.5% of locals and yet are at opposite ends of the age spectrum. Senior Security is the most elderly group of all, their average age is 75, and almost all are retired. They have earned sufficient income to buy their own homes with a mortgage which they have now paid off and most live in reasonable comfort, their state pensions being supplemented by occupational pensions. Aspiring Homemakers are typically younger families between the ages of 26 and 35, with a good

number setting up homes for the first time. They tend to be in full-time employment and the starter salaries they earn mean that most can manage their household budgets, but outgoings can also be high. This group makes up just over 13.5% of the population, with just under 7% of them classified as the sub-group **type** Primary Ambitions, a figure which is more than twice the national average.

Overall, the most prominent sub-group type in the catchment area is O64 (Bus-Route Renters); almost 10% are classified as such compared to a national average of less than 2%. Those in type O64 are typically between 25 and 40 years old, are employed but household incomes are fairly low, and work in administration, service or manual jobs.

Competition

Aside from the current centre, there is only one other fitness facility in Hythe itself. This is the hotel-based Hythe Imperial Health Club & Spa, located to the west of Princes Parade. It has around 1,000 members and facilities include a gym, 15m pool, studio, squash and 9-hole golf course. Monthly membership is £57. All other fitness competitors are found in Folkestone, around two miles to the east. The principal public facility here is the Folkestone Sports Centre, which was built in the 1970s and is operated by the Folkestone Sports Centre Trust. It has just under 2,000 members and charges £35 per month.

Bannatynes is the premium offering in Folkestone, located on the Shearway Business Park. It is priced between £49.99 and £59.99, and has around 3,000 members. There is one other private club with a pool in Folkestone; Spindles Health & Leisure, based at the Britannia Hotel, but this is a much smaller club with less than 250 members. TruGym offers a low-cost option and has the largest gym in the area (c. 100-stations). Monthly membership prices range from £15.99 to £19.99. There are three independent private clubs: Hi-Rep Gym (£22); Dynamix Leisure (£40); and Fit One Gym (£18.99). All offer gyms between 60-80 stations, with fewer than 500 members between them. The last option is Three Hill Sports Park, managed by Folkestone & Hythe Sports Trust, which has a 20-station gym and under 100 members.

Section 4: Health & Fitness Market Appraisal

Latent Demand

The Leisure Database Company estimates the latent demand for fitness at the new Hythe Leisure Centre to be **2,334**. This figure includes allowance for 20% of the total to come from outside the estimated catchment area. A negative consideration has also be made for the

competition in the area to allow for the fact that people living in Folkestone have a number of other options which are closer to home.

The full Latent Demand Report can be found in Appendix A.

Map 3: Health & Fitness Competition Map¹

Health & Fitness Competition Map for the New Hythe Leisure Centre, Shepway (showing 1 mile bands plus a 12 minute drive time)



Prepared for The Sports Consultancy, August 2017
© The Leisure Database Company Ltd.

¹ We are not aware of there being confirmed timescales on The Leas Club planned development shown in Map 3.

Section 5: Business Planning

BUSINESS PLANNING

Having completed the review of existing financial performance and the health & fitness market appraisal, the next stage was to consider the income and expenditure projections for the new centre. This is perhaps the most critical stage of the project as it will provide the Council with a clear and informed estimate of the revenue implications and management fee over the first ten years of the new centre's life, which will be one of the key considerations in the projects affordability analysis. The approach used is the same as a leisure contractor uses when compiling its financial offer was be employed. In short, it is as follows:

- Step 1: Individual income and expenditure projections are compiled for the centre over the term of the contract . They are informed by the needs assessment and current trading data
- Step 2: An allowance for the operator's contract mobilisation costs is then added. These cover the expenditure an operator has to incur for the pre-contract administration, e.g. transfer of direct debits, staff TUPE, etc
- Step 3: Allowances for the operator's head office costs and profit are then added. These are usually calculated as a % of income (and critically these level are fixed at the tender stage so should not vary during the contract period regardless of actual performance of the centres)
- Step 4: Taking into account aggregate income, expenditure, mobilisation and operator head offices costs and profit, the figure that is produced is the management fee, which can either be a payment from the Council to the contractor (if there is a deficit) or vice versa if there is a surplus.

This process is summarised in Figure 3.

Figure 3: Management Fee Calculation



The assumptions for the business planning exercise have been set out in five sections as follows:

- Facility mixes and management
- General
- Income
- Staffing
- Other expenditure.

Facility Mixes and Management

The business plan has been based on core facility mix set out in the latest plans from GT3 Architects (July 2017).

For this exercise, it has been assumed that the new centre would be managed by a specialist leisure operator. This could be either an existing leisure trust or one of the private sector operators who would then use their own trust model to deliver the most competitive final outcome. Two alternative scenarios were also considered (see end of section).

It has been assumed that the Council would have some control over the charges for swimming and swimming lessons.

It has been assumed that the operator would be responsible for all repairs and maintenance other than major structural items. Their responsibilities would be set out in an Asset Management Responsibilities Matrix, which would for part of the contract documentation.

Section 5: Business Planning

General Assumptions

The business planning exercise was completed using TSC's in-house business planning model. This builds up income and throughput on a zone-by-zone basis and expenditure by key cost centres, e.g. staffing, utilities, repairs and maintenance, etc.

The outputs were benchmarked against TSC's Operational Database, which contains over 1,250 financial records from more than 450 public leisure facilities in the UK (see Table 5).

The income and expenditure projections are based over a 10-year period with the average for the period also provided.

Income and expenditure projections are based on 2019 prices.

The building internal floor area has been based on the latest accommodation schedule (3,013 sqm).

The business plan has been based on a trust operation (see above) for the purposes of VAT and NNDR.

Opening hours have been assumed to be 7.00 a.m. to 10.00 p.m.

Where applicable, prices have been based on the current structure with allowance for increase due to the improvement in the facilities. For those facilities not available at the existing centre, prices have been based on similar competing centres.

An allowance for 1% year-on-year growth in usage for years 1-3 has been included in the projections.

No price inflation has been included in the model.

For school usage, it has been assumed that there is 38 weeks' usage per year with the remaining 12 being the school holidays.

Income Assumptions

Swimming income has been based on the following areas:

- General casual usage
- Adult swimming lessons
- Junior swimming lessons
- Aquatic fitness classes
- Club hire
- School hire
- Pool parties.

Income from casual usage and hires has been informed by the current programme of usage.

Swimming lesson income has been informed by the current programme of usage and number of people currently on the lesson programme. In terms of estimating the potential number at the new centre, the population of the 12-minute catchment (circa 85,000) has been reviewed, with a particular focus on those aged between three and ten, as they are typically the demographic group most heavily represented in swimming lessons. Using a target penetration rate of 20% and taking into account the competing facilities, it has been estimated that up to 700 people could be attracted.

Health and fitness membership income has been based on a latent demand report produced by The Leisure Database Company for the New Addington catchment area. It projected that the Centre's catchment area could generate demand for up to an additional 2,334 memberships above current levels. This figure was used to inform the target

Section 5: Business Planning

membership levels. An allowance has also been included for swim-only memberships.

Food and beverage income has been based on the benchmark from TSC's Operational Database of £0.27 per visit. In addition to the main users of the centre, it has also been assumed that a proportion of the annual tourist visitors to Hythe would use the café. For the purposes of the revenue projections, 5,000 per annum has been assumed.

Vending income has been based on the benchmark from TSC's Operational Database of £0.10 per visit.

Retail income has been based on the benchmark from TSC's Operational Database of £0.05 per visit.

Expenditure Assumptions - Staffing

The staffing costs have been based on the current structure and salaries with additional roles included to reflect the increased size and range of facilities (e.g. larger pool, health and fitness gym).

The staffing costs take into account the Minimum Wage of £7.50 per hour.

Casual staffing costs have been based on the assumed number of hours of classes per week and the current rates of pay for these roles.

On-costs have been included at 22% of salaries (pension and NI).

Additional allowances were made for staff training (0.2% of staff costs), travel (0.2%) and uniforms (0.1%).

Other Expenditure Assumptions

Utilities costs have been set at £27.70 per sqm. This figure is between TSC's upper quartile and median benchmark and reflects the fact the building should be designed to modern standards of energy efficiency. A

1% annual increase has also been allowed across the 10-year period to reflect the potential volatility of these costs.

Day-to-day and planned repairs and maintenance costs have been included at £14.45 per sqm, which is the midpoint of the TSC median and upper quartile benchmarks.

Lifecycle costs have been on 1.0% of the capital construction cost per annum. These costs have also been adjusted across the 10-year period to reflect a typical profile of when cost is incurred

Cleaning materials costs have been based on the TSC median benchmark of £4.23 per sqm.

An annual allowance for pool chemicals of £15,000 has been included.

An allowance for fit-out costs over and above those identified in the capital cost plan (£217,000) has been included. These have been estimated based on other comparable schemes to be £230,000 and have been included in year 1 only.

The cost for leasing health and equipment has been based on £600 per station per year.

NNDR has been based on TSC's median benchmark of £25.24 per sqm and that the operator as a trust would receive 80% relief on this figure.

Marketing costs have been on TSC's median benchmark of 1.7% of income with an additional allowance of £15,000 in year 1 for launch marketing.

Insurance costs have been based on TSC's median benchmark of £1.82 per sqm.

Administration costs have been based on TSC's median benchmarks (print, post and stationery – 0.5% of income; telephones – 0.5%; audit and legal – 0.5%, licences – 0.8% of income).

Section 5: Business Planning

Food and beverage cost of sales have been based on TSC's upper quartile benchmark of 44%.

Vending cost of sales has been based on TSC's upper quartile benchmark of 41%.

Retail cost of sales has been based on TSC's upper quartile benchmark of 57.0%.

An allowance for irrecoverable VAT has been included based on the assumption that all sporting income will be exempt of VAT.

An allowance of 4.5% for the operator's head office costs and 4.5% for their profit has been included.

Alternative Scenarios

In addition, two alternative scenarios have also been presented as follows:

- **In-house management:** in this scenario, the operation of the leisure centre would not be able to benefit from the NNDR and VAT benefits of a trust and also economies of scale is certain expenditure items (notably utilities and repairs and maintenance). In addition, although under this scenario the allowance for operator profit and central costs is not applicable, this would be more than compensated by the Council recharges that would apply (estimated to be £214,000)
- **Living Wage commitment:** in this scenario, the Council commits to ensure that all staff are paid the Living Wage as a minimum (£8.45 per hour). The effect of this is to increase the salary cost of not only those below the Living Wage, but also those at the Living Wage level to ensure that their salary reflects their grade relative to those increased to the Living Wage.

A summary of the business planning can be found on the next page. It has been structured as follows:

- Table 1: Income and expenditure summary for the new centre (including two additional scenarios describe above)
- Table 2: KPI analysis for the new centre.

The projections show that the new centre should – on average – be able to deliver the Council a positive management fee (estimated to be circa ██████████ per annum over a ten-year period). It is estimated that the additional cost of applying the Living Wage would be about ██████████ per annum. Moving to an in-house operation would have a much more significant impact (circa ██████████).

Section 5: Business Planning

Table 4: Income and Expenditure Summary for the New Centre

Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	10-year average
Dry side	[REDACTED]										
Health & Fitness	[REDACTED]										
Wetside	[REDACTED]										
Other Memberships	[REDACTED]										
Rentals	[REDACTED]										
Secondary	[REDACTED]										
Outdoor	[REDACTED]										
Total Income	[REDACTED]										
Expenditure	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	10-year average
Staffing costs:	[REDACTED]										
Premises costs:	[REDACTED]										
Management costs:	[REDACTED]										
Cost of sales:	[REDACTED]										
Other costs:	[REDACTED]										
Total expenditure	[REDACTED]										
Net Revenue	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	10-year average
Profit/Loss (Management Fee)	[REDACTED]										
Membership Numbers	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	10-year average
H&F memberships	[REDACTED]										
Other memberships	[REDACTED]										
Throughput	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	10-year average
Total Throughput	[REDACTED]										

Section 5: Business Planning

Table 5: KPI Summary for the New Centre

		TSC Benchmarks
Income KPIs	10-year average	Mean
Average income per visit		
Health and fitness membership income per station		
Swimming income per sqm of water space		
Sports hall income per badminton court		
F&B income per visit		
Vending income per visit		
Retail income per visit		
Output KPIs	10-year average	Mean
Staff costs as a percentage of income		
% cost recovery		
Utility costs per sqm		
R&M costs per sqm		
Advertising and marketing costs as % of income		
F&B cost of sales		
Vending cost of sales		
Retail cost of sales		
Throughput KPIs	10-year average	Mean
Visits per sqm		
H&F members per station		

MANAGEMENT OPTIONS

As outlined in Section 4, the business planning has been based on the assumption that the management of the new centre would be outsourced to a specialist leisure management contractor. A scenario that considered the implications of in-house management was also considered. In this section, the characteristics of the main management options available to the Council are covered, including outsourced and in-house management.

Sport England's recently-published *Leisure Management Options* Guidance lists eight different management options for leisure facilities. However, the most common options can sensibly be grouped into four main categories:

- In-house management
- Outsource to existing specialist operator
- Set up a new leisure trust
- Asset transfer.

In-house management

This would involve the Council managing the new centre directly as is the case with the existing centre. Whilst the Council has total operational and strategic control of the service, this option is likely to be significantly more expensive from an operational perspective (as shown in Section 5) for a number of reasons:

- There are no tax advantages available by operating the service in-house²

² Following a legal challenge by the London Borough of Ealing in July 2017, this may change; however, the implication of the ruling is not yet clear.

- The Council may also need to employ additional staff to support the centre operation within, for example, marketing, IT, human resources, finance, and legal functions
- The Council is not a specialist and has experience of operating leisure centres and will not benefit from the wider organisation support in marketing that a leisure operator does
- The operating models of specialist leisure operators typically allow them to achieve charitable relief on business rates (albeit, this advantage will be removed when all responsibility for business rates is transferred from central to local government by 2022).

Not only will the service be more expensive to operate via the in-house model, the Council will have to assume all risks and responsibilities of operating the service.

Outsource to an existing specialist operator

Regardless of the type of specialist operator, or their formal legal structure, this option allows the Council to benefit from the certainty of a contracted annual management fee and the ability to transfer operational and financial risk to a third party.

The operator market is largely split into two categories:

- **Not for Profit Distributing Organisation (NPDOs)**, e.g. GLL, Freedom and Fusion
- **Private operators**, e.g. SLM, Places for People, Serco Leisure, Parkwood and 1Life. These organisations tend to utilise a trust operating model to allow them to benefit from tax and rate relief, (the financial advantages of which it will pass on to the Council through the management fee).

Section 6: Management Options

Operators in both categories demonstrate a strong track record of delivering leisure services on behalf of local authorities and offer the benefit of significant scale and strength of financial covenant; this provides local authorities with the peace of mind that, in the event the operator fails to achieve its financial targets for a particular contract, it has many other contracts underpinning its business. In short, underperformance in one contract is unlikely to threaten the existence of one of these operators.

The operator is able to bring significant specialist management expertise to the service and the option allows financial surpluses (in excess of the contracted annual management fee) to be ring-fenced and reinvested back into the service.

The operating contract is for a fixed term, typically between 7 to 15 years (depending on the age and condition of the facilities in the portfolio). The services are delivered under a Services Specification and Performance Monitoring System, allowing the Council to retain control over the scope and quality of the service. Responsibilities for asset management are set out clearly in an Asset Management Responsibilities Matrix. The contract documentation also allows the Council to insist on controls over user prices and usage of the facilities by specified clubs and groups.

The Council could also form a Leisure Partnership Board to oversee the agreement with the operator. The constitution of the Board (in terms of membership and, responsibilities) can be included in the agreement with the leisure operator at the outset of the contract.

Set up a new leisure trust

The Council could instead choose to set up its own NPDO to operate its portfolio. There are a number of different social enterprise models available to the Council to choose from, all of which have subtle differences. Whilst from a legal and regulatory perspective a new trust would share similarities with established trusts outlined above, there are some important considerations the Council will need to be aware of when considering the suitability of this option:

- A trust is time-consuming and expensive to set up (significantly more so than procuring a leisure management contract)
- The new trust will rely on a single contract (i.e. in this case Folkestone & Hythe) and its financial covenant will therefore be significantly weaker than the established operators. If it fails to achieve its financial targets agreed at the outset of the contract, it has nothing to fall back on, other than the Council. Effective transfer of risk from the Council will therefore be very limited. This would be the same in the case of the trust failing
- Given the small scale of the operation it will not benefit from the economies of scale and greater purchasing power enjoyed by the larger organisations. It will therefore pay more for supplies and equipment such as fitness stations, energy, asset maintenance, and IT equipment.
- The cost of its head office (chief executive, finance director, etc) will be apportioned to just one contract (i.e. Folkestone & Hythe), whereas an established operator can spread theirs over multiple contracts. Therefore, this typically represents a much bigger cost within a new leisure trust's business plan for a specific contract than for an established operator.
- It will be difficult to identify operational underperformance if the trust does not have the benefit of compare against benchmarks of other similar facilities and contracts.
- Whilst the influence of the Council is greater over its newly established trust than it would be over an independent operator this influence is nevertheless limited to a 20% representation on the board (in order to maintain its independence and achieve charitable status). Moreover, a Council's influence over its trust tends to diminish as the organisation matures and the relationship can deteriorate over time. Indeed, there are some very recent examples of where a Council has chosen to put its leisure contract out to tender after having originally established

Section 6: Management Options

their own trust to deliver the service, and those incumbent trusts have failed to secure the new contract.

The Council should also be aware that if it does decide to set up its own trust (without formally testing the operator market through a competitive procurement process), it will do so without the benefit of comparing what proposals could be offered by the operator market. It will therefore effectively negotiate the commercial proposals in a competitive vacuum and will have no way of ensuring it is achieving best value.

Asset Transfer

An asset transfer can take a number of forms, e.g. passing over responsibility for managing a facility to a third party on a long-term lease, on a licence or through freehold disposal. In the case of a lease or a licence, there would be no detailed specification of performance requirements that there is with a management contract.

So, while this option achieves the maximum risk transfer to the Council, it gives the Council almost no input to or control over the aims and objectives for the facility and delivers very little opportunity for staff involvement. It has typically been used for local authority leisure centres where a Council has old facilities that represent a significant financial and operational burden to them and they are looking to pass this over to a third party at zero future cost to themselves.

As this project involves a new wet and dry centre that should generate the Council a positive income, this option is not appropriate.

As a concluding point and to provide further context on the relative financial merits of in-house management, a specialist operator and setting up a new leisure trust, data for average income per visit from TSC's Operational Database has been considered. It shows that in-house management on average generates an income per visit of £3.09 (based on 186 records). For a new leisure trust, it is £3.11 (62 records) and for a specialist operator, it is £4.57 (79 records). This underlines the

potential variance there is in income-generating potential of the three main options considered in this section.

Section 7: Operator Soft Market Testing

OPERATOR SOFT MARKET TESTING

As well as considering the range of management options available (Section 6), a soft market testing exercise was also undertaken. This relates to the option where the Council seeks a specialist operator to manage the facility. As mentioned earlier, at present, this is the option that it is assumed the Council will follow.

The aim of the exercise was simply to test if there was interest from leisure operators in this opportunity. Clearly, if this exercise were to show that there was little appetite from the market, it could lead the Council to consider a different management option in more detail.

In terms of the organisations approached, they represented a blend of the established leisure trusts, private sector operators and two local trusts and were as follows:

- Established trusts:
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
- Private operators:
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
- Local trusts:
 - [REDACTED]

- [REDACTED]

A short information memorandum was distributed to each organisation. A copy of it can be found in Appendix B. This set out the background and context for the opportunity, timescales and what the Council was seeking in terms of a management contract. It also asked for a response to four questions:

- Is the management contract for the new Hythe Leisure Centre of interest to you?
- If you are not interested, please give brief reasons
- Do you have a preference on the length of the contract?
- Do you have any other comments or questions regarding the opportunity?

Of the organisations approached, two did not respond. They were [REDACTED]. One of the private operators in the market – [REDACTED] – was also not approached as they are currently not active in bidding for new contracts and so were unlikely to be interested in this opportunity.

A summary of the soft market testing is presented in Table 6.

Section 7: Operator Soft Market Testing

Table 6: Soft Market Testing Summary

	Interested in the opportunity?	If you are not interested, please give brief reasons	Do you have a preference on the length of the contract?	Do you have any other comments of questions regarding the opportunity
[REDACTED]	Yes	n/a	10 years plus 5-year extension option	n/a
	Yes	n/a	15 years minimum	n/a
	Yes	Interested; however, are more cautious over the financial performance of centres in coastal regions due to elderly populations	10 years plus 10-year extension option OR 10 years plus 5-year extension option	Would wish to secure an appropriate car parking payment scheme given the location of the centre, ensuring customers had 1-2hr free parking, with parking income going to the operator.
	Yes	n/a	10 years plus 5-year extension option	The Council should be mindful of the fact that in the initial years the operator will incur additional costs as a result of fit-out and key income generating areas reaching maturity. This must be considered when setting affordability limits.
	Yes	n/a	10 to 15 years	n/a
	Potentially (will be dependent on timing) Not currently	Interest will depend on when the project reaches the market and a decision to bid will be weighed up against other opportunities.	10 to 15 years	n/a Interest may change depending on market conditions closer to the time.

Of the seven operators that responded, five stated that they would be interested in the opportunity. [REDACTED] who have recently been awarded the contract to manage [REDACTED] - indicated that they could be interested in the opportunity; however, it would be dependent on the timing of it reaching the market and weighing this up against other opportunities. [REDACTED] said they were not interested at this moment, but would consider it again closer to the time. These results should give the Council comfort that, if the opportunity is offered to the market, it should generate sufficient interest.

In terms of preferred contract length, there was some variation here; however, generally something in the region of ten to 15 years would be appropriate. Offering an extension option is also something the Council should consider.

A final point to note here was raised by [REDACTED]. They drew attention to the costs that an operator has to incur in the early years of the contract. Therefore, in order to maximise operator interest, it is recommended that the Council seeks a **profiled management fee** (i.e. one that reflects an

Section 7: Operator Soft Market Testing

operator's business plan and therefore is lower in the early years of the contract and higher later one), rather than an average management fee across the life of the contract (which means an operator has to sustain a loss in the early years of the contract before seeing a financial benefit in later years).

Section 8: Affordability

AFFORDABILITY

This section brings together the various financial elements of the project to consider the overall affordability. It takes into account the following:

- The capital cost as set out in Section 2, including professional fees
- The costs of re-aligning Princes Parade
- The estimated cost of continuing to operate Hythe Swimming Pool until the new centre opens
- The 20-year revenue implications of the new centre, allowing for indexation of the management fee (a typical contractual term) at 2% per annum
- The estimated advisor costs for procuring a leisure operator
- The capital funding available for the scheme.

In terms of the 20-year revenue projections, these have been based on the 10-year projections in Section 5. However, they take into account the expected long-term profile of lifecycle costs and the ongoing annual 1% increase in utilities costs as described in Section 5.

Capital Funding and Project Costs

Table 7 below summarises the total costs associated with the project (i.e. construction of the new leisure centre plus associated infrastructure investment) and the capital funding that has been identified.

Table 7: Summary of Project Costs and Capital Funding

PROJECT COSTS	
Site remediation	
Construction of leisure centre	
Realignment of Princes Parade	
Construction of new promenade	
Associated external works & drainage	
Associated services	
Leisure centre management contract advisory fees	
TOTAL COSTS	
CAPITAL FUNDING	
Nickolls Quarry s106 capital receipt	£4,792,345
Hythe Swimming Pool site capital receipt	
Princes Parade residential site capital receipt	
Affordable Housing Section 106 contribution	£1,400,000
Homes England Accelerated Construction Fund	£1,977,879
CIL Funding (Princes Parade site)	£1,184,533
TOTAL FUNDING	
NET FUNDING SURPLUS/(SHORTFALL)	

Note: Nickolls Quarry is a housing development between Hythe and Burmarsh.

Section 8: Affordability

Therefore, at present there is a net surplus on the project of circa £1.22 million. A more detail cashflow of how this would break down across the period 2019 to 2041 is shown in Table 9, alongside the ongoing revenue implication for the new centre compared with the current operation of Hythe Swimming Pool.

Additional Prudential Borrowing

Although as Table 7 shows, there is a capital surplus on the existing project, should the capital costs (or associated infrastructure costs) end up exceeding these budgets, or one or more of the funding sources fails to materialise, the Council would have the option of using prudential borrowing via the Public Works Loans Board, funded by the management fee income it is projected they would receive, to generate further capital.

Table 8 provides an illustration of the additional capital based on the following assumptions:

- Borrowing term of 25 years
- Interest rate of 2.59%³
- Funded by the net average income over the period 2019 to 2041 received by the Council taking into account the exiting cost of Hythe Swimming Pool and the project management fee income from the new centre.

It shows that, if required, the Council would have the ability to raise in the region of another £3 million via prudential borrowing should it prove necessary.

Table 8: Prudential Borrowing Illustration

EXISTING HYTHE SWIMMING POOL ANNUAL NET COST

NEW LEISURE CENTRE MANAGEMENT FEE

NET INCOME

Annual rate: 2.59%

Period: 25 years

INDICATIVE CAPITAL FUNDED BY NET INCOME



³ Standard New Annuity Loan Rate as of 16 January 2019. Subject to variation.

Section 8: Affordability

Table 9: Project Cashflow

	PROJECT SUMMARY		PRE-OPENING			NEW CENTRE OPEN																				Total
	Capital	Revenue (23-year average)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	
CAPITAL COSTS			Year -2	Year -1	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	
TOTAL EXPENDITURE (CAPITAL COST & FEES)																										
PHASE 1																										
Site remediation			£0		£0																					
Site remediation prelims	13.0%		£0		£0																					
Site remediation contractor OHP	8.5%		£0		£0																					
Site remediation risk allowance	10.0%		£0		£0																					
Site remediation contractor fees	10.0%		£0		£0																					
Site remediation design fees	5.0%		£0		£0																					
Site remediation client direct costs			£0		£0																					
Site remediation employer's risk allowance	6.9%		£0		£0																					
Site remediation funding costs			£0		£0																					
PHASE 2																										
Construction of leisure centre																										
Leisure centre prelims	13.0%																									
Leisure centre contractor OHP	8.5%																									
Leisure centre risk allowance	10.0%																									
Leisure centre contractor fees	10.0%																									
Leisure centre design fees	5.0%																									
Leisure centre client direct costs																										
Leisure centre employer's risk allowance	6.9%																									
Realignment of Princes Parade			£0		£0																					
Realignment of Princes Parade prelims	13.0%		£0		£0																					
Realignment of Princes Parade OHP	8.5%		£0		£0																					
Princes Parade risk allowance	10.0%		£0		£0																					
Princes Parade contractor fees	10.0%		£0		£0																					
Princes Parade design fees	5.0%		£0		£0																					
Princes Parade client direct costs			£0		£0																					
Princes Parade employer's risk allowance	6.9%		£0		£0																					
Construction of new promenade			£0		£0																					
Construction of new promenade prelims	13.0%		£0		£0																					
Construction of new promenade OHP	8.5%		£0		£0																					
Promenade risk allowance	10.0%		£0		£0																					
Promenade contractor fees	10.0%		£0		£0																					
Promenade design fees	5.0%		£0		£0																					
Promenade client direct costs			£0		£0																					
Promenade employer's risk allowance	6.9%		£0		£0																					
Associated external works & drainage			£0		£0																					
Associated external works & drainage prelims	13.0%		£0		£0																					
Associated external works & drainage OHP	8.5%		£0		£0																					
External works risk allowance	10.0%		£0		£0																					
External works contractor fees	10.0%		£0		£0																					
External works design fees	5.0%		£0		£0																					
External works client direct costs			£0		£0																					
External works employer's risk allowance	6.9%		£0		£0																					
Associated services			£0		£0																					
Associated services prelims	13.0%		£0		£0																					
Associated services OHP	8.5%		£0		£0																					
Associated services risk allowance	10.0%		£0		£0																					
Associated services contractor fees	10.0%		£0		£0																					
Associated services design fees	5.0%		£0		£0																					
Associated services client direct costs			£0		£0																					
Associated services employer's risk allowance	6.9%		£0		£0																					
Leisure centre management contract advisory fees			(£30,000)	(£30,000)																						
		(£28,988,829)	(£4,720,809)	(£19,577,212)	(£4,690,809)	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	(£28,988,829)
FUNDING																										
Nickolls Quarry s106 capital receipt	£4,792,345		£4,792,345																							£4,792,345
Hythe Swimming Pool site capital receipt	£6,285,000																									£6,285,000
Princes Parade residential site capital receipt	£14,500,000																									£14,500,000
Affordable Housing Section 106 contribution	£1,400,000					£1,400,000																				£1,400,000
Homes England Accelerated Construction Fund	£1,977,879					£1,977,879																				£1,977,879
CIL Funding (Princes Parade site)	£1,184,533		£1,184,533																							£1,184,533
TOTAL FUNDING										£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£30,139,757
FUNDING DEFICIT										£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£1,150,927
REVENUE IMPLICATIONS			Year -2	Year -1	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Total
LEISURE CENTRE OPERATIONAL POSITION																										
EXISTING HYTHE SWIMMING POOL ANNUAL NET COST		(£42,103)	(£322,787)	(£322,787)	(£322,787)	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	(£968,361)
NEW LEISURE CENTRE MANAGEMENT FEE																										
						1.00	1.02	1.04	1.06	1.08	1.10	1.13	1.15	1.17	1.20	1.22	1.24	1.27	1.29	1.32	1.35	1.37	1.40	1.43	1.46	

PROJECT PROGRAMME AND NEXT STEPS

This section covers the next steps for the project from the point at which planning permission was achieved. It summarises the more detailed report provided by Hadron Consulting, which can be found in Appendix C. It covers the following areas:

- Contractor procurement
 - Procurement routes
 - Tender options
 - Frameworks
- Consultant team procurement
- Project programme.

Contractor Procurement

The broad purpose of contractor procurement is to appoint an appropriately skilled company that has the right team to deliver the works required and based on an agreed cost and programme and appropriate transfer of risk. Whilst it might seem a little premature to consider the contractor procurement, the whole structure of the project and the way in which the consultant team is procured is influenced by it. It is also important to have a clear outcome fixed so the procurement and selection of the consultant and contractor can be aligned to it.

In terms of the construction market, following contraction during the recession, it has struggled to cope with the upturn in activity and the spectre of Brexit has added another element of uncertainty. Contractors are therefore being more selective about the projects they bid for and clients need to work hard to make their project attractive to the market.

To this end, consideration could be given to splitting the leisure centre and infrastructure and remediation works and appointing different contractors for each. However, for this project, it is recommended that the works are carried out through one contractor in order to:

- to deliver cost certainty early
- to ensure a co-ordinated approach to the works as a whole
- to reduce the risk of delay
- to simplify the tender process
- to deliver the project as quickly as possible.

Procurement Routes

The typical procurement routes available to the Council are as follows:

- **Traditional:** in this option an architect develops the detailed designs for the facility, which are then costed by a quantity surveyor. Contractors are then invited to tender for the works (with usually the contract being awarded to the lowest price)
- **Management Contracting:** in this option, the Council would appoint a management contractor at an early stage of the project to act as a professional consultant advising on the design and managing the construction works. The management contractor would then sub-contract all of the construction works. This route involves very little transfer of risk and cost certainty is not achieved until the end of the process
- **Construction Management:** this is very similar to management contracting; however, the Council would have a direct contract with each of the works sub-contractors

Section 9: Project Programme and Next Steps

- **Partnering:** this option seeks to put a place a full project team, *including* the contractor at the outset of a project and enable all parties to act co-operatively and make decisions in an environment of trust. However, it rarely delivers the best price and there is a limited transfer of risk
- **Design and Build:** the client provides the contractor with a set of performance requirements defining what is to be provided. The contractor responds with a proposal, including prices for construction and design works. The client and contractor then negotiate to ensure the contractor's proposals accurately reflect the client's requirements and agree a mutually acceptable specification. Under this form of contract the contractor is solely responsible for design, fabrication and co-ordination of the works.
- **Develop and Construct:** this is different from design and build in that the Council's design team would work up the design in some detail (typically to RIBA Stage 4a), to ensure that the brief can be met and that a unique design is achieved. The design team may subsequently be appointed by, or novated to, the successful develop and construct contractor. Unlike design and build, the contractor is only required to carry out limited elements of the detailed design.

Given the level of work that has been undertaken so far, a **Develop and Construct** procurement route is recommended for this project, with the design being progressed to a more advanced stage, e.g. RIBA Stage 4a, before the appointment of a contractor takes place. This is discussed in more detail in Appendix C.

Tender Options

In terms of the tendering process itself, the Council could consider either a single-stage, two-stage or hybrid approach. In the first option, the work is tendered once the design has been developed to the required level (RIBA Stage 4a). A fixed price is then provided by the contractors and

the Council would engage in a contract with the successful one. In a two-stage process, a first-stage tender take places before a design is fully developed, with the price being based on the contractors staff costs, overheads and profit, preliminaries (and in some cases early packages where this is defined). The contractor is then appointed under a Pre-Contract Services Agreement to work with the client's project team to develop the design to the required level (e.g. RIBA Stage 4a). The contractor then tenders the various sub-contractor packages on an open-book basis (this is the second-stage tender). Once these have been completed, the overheads, profit, etc, are applied to the sub-contract prices to arrive at a Guaranteed Maximum Price or Target Price.

The hybrid approach is, as the name implies, a combination of the single- and two-stage approach. In it, a two-stage process is run, but two contractors are selected to price the second stage in competition on a fixed price basis. The unsuccessful contractor could be paid an element of their bid costs (e.g. £50,000) to encourage bidder interest.

Given the current market conditions in the construction industry, the complexity of the project and the associated high level of risk, the project location, and the Council's priority for a high quality product, a **two-stage tender approach** is recommended. This should generate an appropriate level of interest whilst also gaining from the benefit of early contractor involvement on buildability issues. This does, however, need to be complemented with a consultant team that is experienced in this procurement route to ensure the right price is obtained at the second stage.

Frameworks

There are a number of OJEU-compliant frameworks available to the Council for the contractor appointment. These bring the advantage of a significant time saving over a standard OJEU approach, which will be important here given the Council's desire to deliver the new centre as quickly as possible. The main frameworks are:

Section 9: Project Programme and Next Steps

- Scape (national in coverage)
- Southern Construction Framework (London, south east and south west)
- Pagabo (national).

It is recommended that the Southern Construction Framework is used for this project. It is OJEU-compliant, and thus avoids a full OJEU process and the associated programme impact. The Council would be able to run a mini-competition to select the contractor. Finally, the framework hosts a range of national contractors with very relevant experience on it.

Further detail can be found in Appendix C.

Consultant Procurement

The Council will require a broad-ranging consultant team to assist them in delivering this project. The core team is likely to include:

- Project manager/Employer's Agent/Contract Administrator
- Cost consultant (quantity surveyor)
- Principal designer (under the CDM Regulations)
- Architect
- Civil and structural engineer – including ground remediation
- Mechanical and electrical services engineer
- Landscape architect
- Leisure consultant (for ongoing business plan revisions and management contract tendering).

Other Consultants that may be required at various stages include:

- Planning consultant (to help discharge conditions)
- Ecology
- Landscape architect
- Fire engineer
- Acoustics engineer
- BREEAM consultant (if BREEAM is a requirement)
- Highways engineer
- Pool consultant
- Archaeological and heritage consultant – and investigations
- Additional surveys – ground investigations, GPR, etc.

The Council has engaged with a range of consultants to date and may wish to assess to involve them on an ongoing basis. In making its decision of who to engage and how, the Council should consider the following key questions:

- **Programme:** how quickly do you want/need to get the consultant team on board? Given the doubts over how much longer the existing pool can be kept operational, time is of the essence and this would suggest a framework route would be best
- **Price:** is lowest price the key factor for the Council? Given the complexities of the sites, the selection of the right team should be a priority

Section 9: Project Programme and Next Steps

- **Known team:** how important is it that the team is known to the Council? Using a known team that the Council has confidence in should allow the project to move as swiftly as possible
- **Flexibility:** how important is it to be able pick and choose the different consultants? The complexity of the site requires a specialist team with a track record in similar projects and it is important to select the right team
- **Track record:** how important is the experience of the team?
- **Previous experience of working together:** is it important that the team have worked together before? Some of the most successful projects have a cohesive team that is used to working with each other, and this should be a key consideration for the Council and would point towards a single appointment
- **Terms of appointment:** are bespoke appointments required?
- **Procurement costs:** is there a pressure to keep these down? Frameworks offer less expensive route to market.

Based on the questions set out above, we would suggest the following approach is adopted:

- A single source framework, such as the PAGABO or Scape framework, be considered for the core team appointment, e.g. project manager, cost consultant, architect, M&E engineer, civil/structural engineer and principal designer, with the final

selection being down to which framework provides the Council the best route to their preferred team

- The smaller 'non-core team' appointments should be dealt with as a variation to the framework appointment or as a direct appointment by the Council. Competitive quotes can be obtained in either option to demonstrate best value.

Project Programme

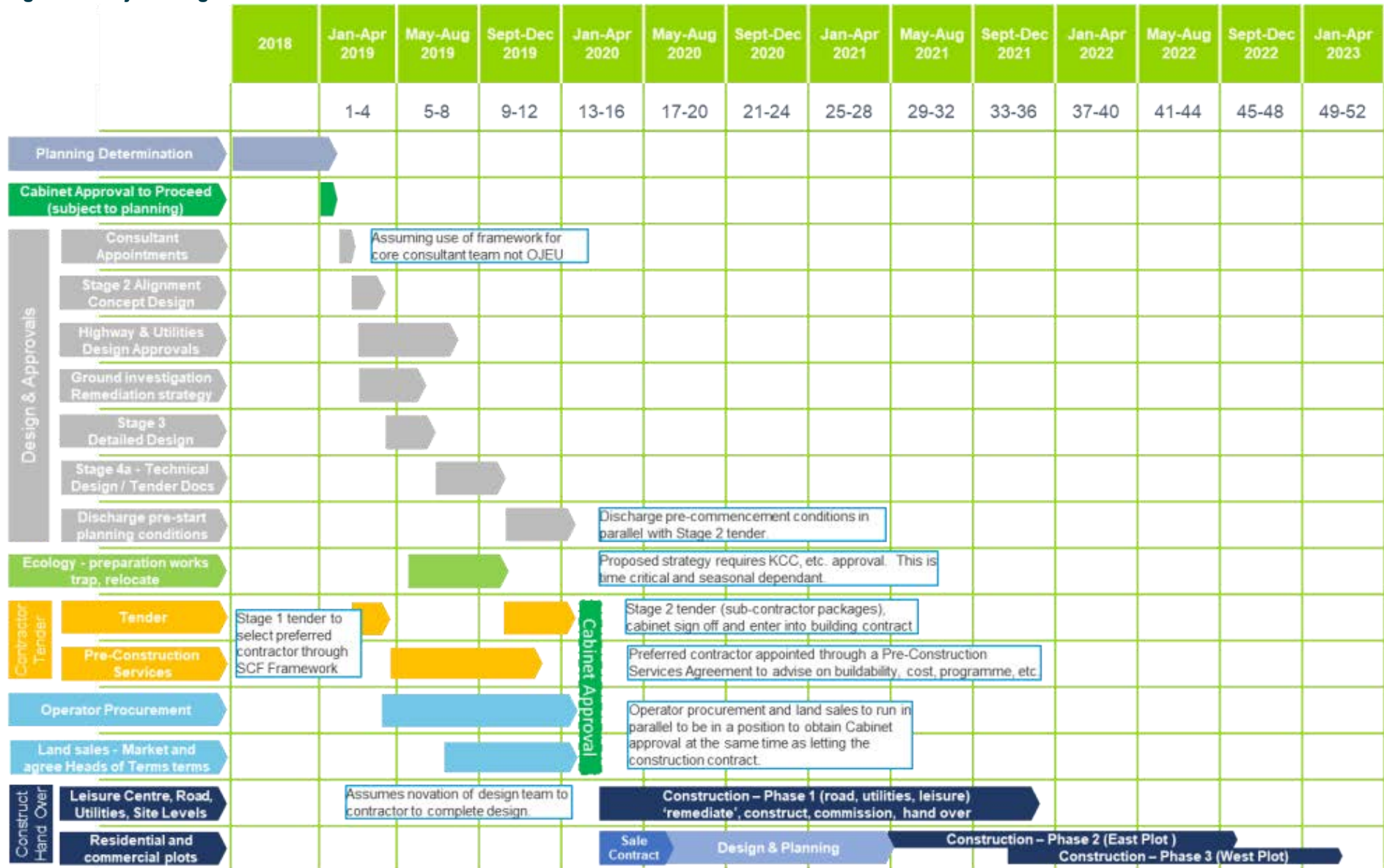
The programme for this project is potentially complex given the two separate development areas (leisure centre and residential), ground remediation and infrastructure works (including the realignment of Prices Parade). Based on a review of the site phasing plans included in the planning application, there are a number of programme opportunities which will help to reduce risk in the process. These were validated with the Council and other stakeholders at a Programme Workshop on 10 November 2017. From this an alternative programme has been produced, which takes into the account the following:

- Remediation
- Parallel working on leisure centre and infrastructure
- Timing of residential development.

Further detail is available in Appendix C and a proposed programme is set out in Figure 4. Figure 5 presents an alternative approach to phasing on which the programme has been based.

Section 9: Project Programme and Next Steps

Figure 4: Project Programme

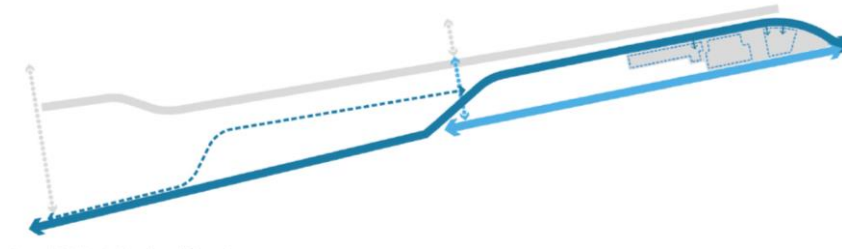


Section 9: Project Programme and Next Steps

Figure 5: Alternative Project Phasing

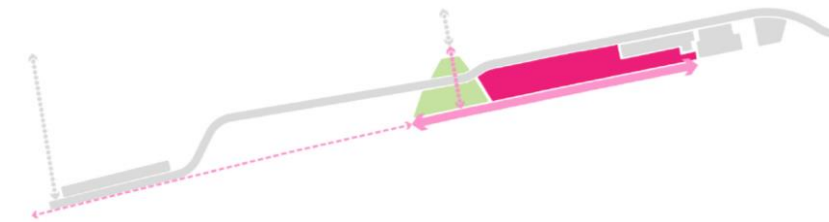
Phase 1:

- Site 'remediation', e.g. site preparation and levelling works.
- Construction of leisure centre
- Realignment of Princes Parade and construction of western car park
- Relocation of existing rising main along realigned Princes Parade
- Provide new utilities along Princes Parade, with connections to development sites
- Provision of new promenade
- Construction of new linear park (including planning along embankment).



Phase 2:

- Construction of character area east (residential) and central open space.



Phase 3:

- Construction of character area west (residential and commercial) and western open space.



Programme Benefit

Phase 1

- Remediation forms part of construction works for Leisure Centre and Infrastructure works
- This avoids starting remediation work ahead of confirmation of the Building Contract price
- Leisure Centre still finishes roughly in line with the previous phasing assumptions
- Road and utilities are completed prior to construction of the development plots.

Phase 2

- This phase commences and finishes a few months ahead of the previous phasing plan.

Phase 3

- This starts earlier than the previous phasing plan. It also assumes an overlap with Phase 2. This will, however, depend on the developer's view of this.

Section 10: Conclusion

CONCLUSION

The existing Hythe Swimming Pool has reached the end of its useful life and represents an ongoing financial and operational risk to the Council. Their proposal to provide a new wet and dry leisure centre at Princes Parade in Hythe will provide a long-term solution to the problem.

The estimated capital cost of the new facility is currently [REDACTED] (out of a total project cost of [REDACTED]). It is estimated that the new centre would open in Q4 2021.

The financial performance of the existing centre reflects its age and the issues referred to above. In particular, it is a very expensive building to operate in terms of utilities and repairs and maintenance costs. While this is to be expected in a building of its age and condition, it means its long-term viability is very doubtful. However, the centre does have a core of swimming usage, which should transfer to the new facility.

The Latent Demand Report and market appraisal indicates that there is an unmet latent demand for health and fitness facilities in the catchment of the new centre (equating to circa 2,300 memberships). This is an important consideration as health and fitness facilities typically are the key revenue-generating zones of a public leisure facility.

TSC has undertaken a detailed business planning exercise using our in-house business planning model. The output has been benchmarked against key performance indicators from our Operational Database. The exercise shows that over the first ten years over operation, the new centre could generate an average annual management fee payment to the Council of [REDACTED]. On a year-by-year basis, there will be variation in this amount, reflecting upfront mobilisation costs and reaching income maturity in the early years and fluctuations in the lifecycle maintenance requirements from year to year.

Two alternative scenarios have also been presented. They are, firstly, assuming that all staff are paid the Living Wage as a minimum; and secondly, assuming in-house management (as opposed to outsourced).

In the former case, it has been estimated that the average annual additional cost would be [REDACTED] and in the latter [REDACTED].

A soft market testing exercise was undertaken with nine leisure operators (a mixture of established national trusts, smaller local trusts and private operators). Seven of them responded and, of these, five indicated that they would be interested in bidding for the opportunity if and when it comes to the market. This should provide the Council with comfort that there will be interest in the opportunity. As for contract length, the feedback indicates that between ten and 15 years (with an allowance for an optional extension) would be appropriate.

In terms of affordability, based on the current capital cost and other fees estimates and the funding that has been identified, there is a capital funding surplus of circa [REDACTED]. This assumes total project cost of [REDACTED]. Therefore, at this stage, the project is affordable without the requirement to fund an element of the capital costs via borrowing.

However, should either the capital costs increase or one or more of the funding sources not materialise, it is estimated that the Council could fund an additional amount of circa [REDACTED] via prudential borrowing from the Public Works Loans Board. This is based on using the net income received by the Council from the projected management fee for the new centre and the cost of continuing to operate this existing Hythe Swimming Pool until the new centre is open.

In terms of project programme and next steps, it is recommended that:

- the Council procures a single contractor for the leisure centre, remedial works and infrastructure and that a two-stage develop and construct procurement route to be adopted
- the designs should then be developed to Stage 4a in conjunction with the contractor and for the completion of the second stage tender

Section 10: Conclusion

- a fixed lump sum price should be obtained for the works at the second stage tender.
- key designers, e.g. architect, mechanical/electrical engineer and civil/structural engineer would be appointed by the Council up to Stage 4a, and then novated to the contractor to complete the design
- The contractor is procured through the Southern Contractor Framework.

In terms of the consultant team appointment to support the Council through the process, it is our recommendation that the following approach is adopted:

- A single source framework, such as the PAGABO or Scape framework, be considered for the core team appointment, e.g. project manager, cost consultant, architect, M&E engineer, civil/structural engineer and principal designer, with the final selection being down to which framework provides the Council the best route to their preferred team.
- The smaller 'non-core team' appointments should be dealt with as a variation to the framework appointment or as a direct appointment by the Council. Competitive quotes can be obtained in either option to demonstrate best value. There may also be instances where the Council's Construction Consultancy Framework could be used.

Finally, based on the programme and assumptions set out in Section 9, it is estimated that the new centre could be operational by Q4 2021.

APPENDIX A: LATENT DEMAND REPORT

New Hythe Leisure Centre

population (15+)

63,133

catchment

12
minute
drive time

latent demand

2,334

dominant mosaic group

14%

H Aspiring Homemakers

Younger households settling down in housing priced within their means



Key Features

- Younger households
- Full-time employment
- Private suburbs
- Affordable housing costs
- Starter salaries
- Buy and sell on eBay

Who We Are	
Age 26-35 37.2% 210	Household Income £40K-£49K 20.5% 166
Household composition Pseudo Family 19.6% 219	Number of children 2 children 18.3% 188
Tenure Owned 77.2% 120	Property type Semi-detached 41.3% 166

dominant mosaic type

10%

O64 Bus-Route Renters

Singles renting affordable private flats away from central amenities and often on main roads



Key Features

- Aged 25 to 40
- Living alone or sharing
- Rent lower value flats, often 1 bed
- Often live near main roads
- Further from central amenities
- Sourced mobile on Internet

Who We Are	
Age 26-35 34.0% 192	Household Income £20K-£29K 41.8% 203
Household composition Single 66.6% 176	Number of children No children 93.4% 130
Tenure Rented 59.7% 346	Property type Flat 91.8% 492

key competitors

- Bannatynes
- Folkestone Sports Centre
- Hythe Imperial Health Club
- TruGym

number of gyms
in the catchment

9

New Hythe Leisure Centre (Folkestone & Hythe)

Assessment of Latent Demand for Fitness

We have set out to assess the potential demand for fitness at the proposed new Hythe Leisure Centre in the district of Folkestone & Hythe in Kent. We understand the new centre will be located to the east of Princes Parade and facilities will include a c. 100-station gym, 25m & teaching pools, two group exercise studios and a café. It will replace the existing Hythe Swimming Pool which was built in the 1970's and has two pools (25m & teaching) and a small (9-station) gym; we believe there are currently around 100 members. The new location is around 1.5-miles from Hythe Pool.

In estimating the demand for new leisure centre, we have concentrated on a 12-minute drive time around the site and factored in the number and type of people living in the area, plus competing fitness gyms.

Catchment Area & Demographics

Princes Parade was a former municipal waste site that sits just to the south of the main road linking Hythe with Folkestone. The Royal Military Canal runs along the northern edge while to the south, you have the beach and the English Channel.

Population in the immediate area is sparse with just over 6k people within a mile. A 2-mile radius includes most of those in Hythe and Saltwood (west) and to the east, it includes those in Sandgate and the western side of Folkestone. Within a 3-mile radius, there are over 63k people and this area includes much more of Folkestone. Because of the scale of the new leisure centre, we have concentrated on the population living within 12-minutes' drive; this area is home to just under 76k people and of these, **63,133** are adults aged 15+. As well as the areas outlined above, 12-minutes' drive reaches those in Hawkinge (north east), Etchinghill (north) and Palmarsh (south west).

The demographics of the population are a real mixture of young and old; groups E (Senior Security) and H (Aspiring Homemakers) both account for over 13.5% of locals and yet are at opposite ends of the age spectrum. Senior Security is the most elderly group of all, their average age is 75, and almost all are retired. Many still live independently in comfortable homes that they own and property equity gives them a reassuring level of financial security.



Aspiring Homemakers are typically younger families, couples who are yet to have children, and singles in their 20s and 30s. A good number are setting up homes for the first time. A montage for this group is shown on the summary page. The type which stands out in this catchment is Primary Ambitions (H30); almost 7% of the population are classified as such, a figure which is more than twice the national average.


The montages above show the huge differences between group E and type H30. Many English seaside towns have a higher than average number of older people; in this catchment, more seem to live in the Hythe end of the catchment area whereas Hawkinge and west Folkestone are home to more of those in group H.

The most prominent type in the catchment area is O64 (Bus-Route Renters); almost 10% are classified as such compared to a national average of less than 2%. A montage of this type is shown on the summary page. Those in type O64 tend to live alone and are typically aged between 25 and 40. Most Bus-Route Renters are employed, but household incomes are fairly low. In general, they have a lower level of education with only a minority having degrees, and work in administrative, service or manual jobs.

Group J (Transient Renters) is the most over-represented Mosaic group when compared to the population in England; it makes up over 11% of local people. This tends to be a 'town-centre' type and in this catchment, the majority of Transient Renters live in the centre of Folkestone. They are single people who pay modest rents for low cost homes. Mainly younger people, they are highly transient, often living in a property for only a short length of time before moving on. The type which stands out here is Renting a Room (J43).

Group L (Vintage Value) is also represented at higher than average levels and like group E, this is a segment which contains high numbers of older people. Over 10% fall into group L, which consists of pensioners with an average age of 74. Most live alone, either in social or private housing, often built with the elderly in mind. Levels of independence vary, but with health needs growing and incomes declining, many require an increasing amount of support.


J43 Renting a Room
Transient renters of low cost accommodation often within subdivided older properties



- Singles and homesharers
- Short term private renters
- Low rent accommodation
- Often Victorian terraces
- Most likely to get a lift to work
- Low wage occupations



L Vintage Value
Elderly people reliant on support to meet financial or practical needs



- Elderly
- Living alone
- Low income
- Small houses and flats
- Need support
- Low technology use



As demonstrated above, this catchment has an older than average population. Numbers of those aged 60+ are higher than average while there are lower numbers of people in their 20s, 30s and 40s.

Competition

Aside from the current Hythe Swimming Pool there is only one other fitness facility in Hythe itself. This is the hotel-based Hythe Imperial Health Club & Spa, located just over a mile to the west at the other end of Princes Parade. It has around 1,000 members and facilities include a gym, 15m pool, studio, squash and 9-hole golf course. Monthly membership is £57.

All other fitness competitors are found in Folkestone, around 2-miles to the east. The principal public facility here is the Folkestone Sports Centre which was built in the 1970's and is operated by the Folkestone Sports Centre Trust. It has a wide variety of facilities on offer: c. 65-station gym, 25m & teaching pools, studios, large 8-court sports hall, squash and a ski slope. We believe it has just under 2,000 members and charges £35 per month.

Bannatynes is the premium offering in Folkestone, located on the Shearway Business Park approx. 2-miles away. Price point is between £49.99 and £59.99 (depending on length of contract) and it has a c. 50-station gym, 20m pool and studio. We believe it has around 3,000 members.

There is one other private club with a pool in Folkestone; Spindles Health & Leisure, based at the Britannia Hotel, but this is a much smaller club with fewer than 250 members.

The low-cost option comes from TruGym and this has the largest gym in the area (c. 100-stations). In addition to the gym, it offers several group exercise classes each week. Membership price ranges from £15.99 (based on 12-month contract) to £19.99 on a monthly basis.

There are three independent private clubs; Hi-Rep Gym (£22), Dynamix Leisure (£40) and Fit One Gym (£18.99). All offer gyms between 60-80 stations (with an emphasis on resistance kit) and the latter two also have a studio. We believe all have fewer than 500 members.

The last option is Three Hills Sports Park, managed by Shepway Sports Trust, which has a small 20-station gym (< 100 members) to complement its large array of outdoor facilities.

We understand there are potential plans for a new health club and apartment development at The Leas Club in Folkestone (c. 2.5 miles away); this is a listed building and there have been planning issues so work is unlikely to begin until mid-2018 at the earliest.

Latent Demand

We have estimated the latent demand for fitness at the new Hythe Leisure Centre to be **2,334** – this is the total number of members we feel could be achieved. This figure includes allowance for 20% of the total to come from outside the estimated catchment area.

We have also, however, made some negative consideration for competition in the area to allow for the fact that people living in Folkestone, around 2-miles away, have a number of other options which are closer to home, albeit without the 'wow' factor of a brand new facility.

MOSAIC UK Profile Report (Adults 15+)

Target Area: 12 minute drive time around the New Hythe Leisure Centre, Folkestone & Hythe

Base Area: England

Groups	New Hythe LC - 12 mins	New Hythe LC - 12 mins %	England	England %	Penetration	Index
A City Prosperity (15+)	138	0.22	2,212,462	4.84	0.01	5
B Prestige Positions (15+)	4,017	6.36	3,356,776	7.34	0.12	87
C Country Living (15+)	1,201	1.90	2,804,840	6.13	0.04	31
D Rural Reality (15+)	752	1.19	2,523,446	5.52	0.03	22
E Senior Security (15+)	8,562	13.56	3,874,208	8.47	0.22	160
F Suburban Stability (15+)	4,346	6.88	2,738,652	5.99	0.16	115
G Domestic Success (15+)	4,774	7.56	3,960,791	8.66	0.12	87
H Aspiring Homemakers (15+)	8,612	13.64	4,385,155	9.58	0.20	142
I Family Basics (15+)	4,715	7.47	3,576,349	7.82	0.13	96
J Transient Renters (15+)	7,065	11.19	2,679,365	5.86	0.26	191
K Municipal Challenge (15+)	758	1.20	2,421,448	5.29	0.03	23
L Vintage Value (15+)	6,371	10.09	2,587,056	5.65	0.25	178
M Modest Traditions (15+)	2,966	4.70	1,879,213	4.11	0.16	114
N Urban Cohesion (15+)	1,701	2.69	2,614,882	5.71	0.07	47
O Rental Hubs (15+)	6,858	10.86	3,482,310	7.61	0.20	143
Adults 15+ estimate 2016	63,133	100.00	45,753,164	100.00	0.14	100
New Hythe LC - 12 mins						
A City Prosperity (15+)			England	England %	Penetration	Index
A01 World-Class Wealth (15+)	0	0.00	310,371	0.68	0.00	0
A02 Uptown Elite (15+)	138	0.22	782,230	1.71	0.02	13
A03 Penthouse Chic (15+)	0	0.00	277,707	0.61	0.00	0
A04 Metro High-Flyers (15+)	0	0.00	842,154	1.84	0.00	0
Adults 15+ estimate 2016	63,133	100.00	45,753,164	100.00	0.14	100
New Hythe LC - 12 mins						
B Prestige Positions (15+)			England	England %	Penetration	Index
B05 Premium Fortunes (15+)	14	0.02	508,520	1.11	0.00	2
B06 Diamond Days (15+)	1,615	2.56	679,079	1.48	0.24	172
B07 Alpha Families (15+)	1,115	1.77	723,906	1.58	0.15	112
B08 Bank of Mum and Dad (15+)	819	1.30	684,516	1.50	0.12	87
B09 Empty-Nest Adventure (15+)	454	0.72	760,755	1.66	0.06	43
Adults 15+ estimate 2016	63,133	100.00	45,753,164	100.00	0.14	100
New Hythe LC - 12 mins						
C Country Living (15+)			England	England %	Penetration	Index
C10 Wealthy Landowners (15+)	370	0.59	907,993	1.98	0.04	30
C11 Rural Vogue (15+)	100	0.16	441,193	0.96	0.02	16
C12 Scattered Homesteads (15+)	19	0.03	507,527	1.11	0.00	3
C13 Village Retirement (15+)	713	1.13	948,127	2.07	0.08	55
Adults 15+ estimate 2016	63,133	100.00	45,753,164	100.00	0.14	100
New Hythe LC - 12 mins						
D Rural Reality (15+)			England	England %	Penetration	Index
D14 Satellite Settlers (15+)	504	0.80	1,090,944	2.38	0.05	33
D15 Local Focus (15+)	168	0.27	715,659	1.56	0.02	17
D16 Outlying Seniors (15+)	81	0.13	705,534	1.54	0.01	8
D17 Far-Flung Outposts (15+)	0	0.00	11,309	0.02	0.00	0
Adults 15+ estimate 2016	63,133	100.00	45,753,164	100.00	0.14	100
New Hythe LC - 12 mins						
E Senior Security (15+)			England	England %	Penetration	Index
E18 Legacy Elders (15+)	3,412	5.40	896,521	1.96	0.38	276
E19 Bungalow Haven (15+)	2,262	3.58	1,348,492	2.95	0.17	122
E20 Classic Grandparents (15+)	956	1.51	825,373	1.80	0.12	84
E21 Solo Retirees (15+)	1,931	3.06	803,822	1.76	0.24	174
Adults 15+ estimate 2016	63,133	100.00	45,753,164	100.00	0.14	100
New Hythe LC - 12 mins						
F Suburban Stability (15+)			England	England %	Penetration	Index
F22 Boomerang Boarders (15+)	1,234	1.95	758,378	1.66	0.16	118
F23 Family Ties (15+)	1,492	2.36	781,808	1.71	0.19	138
F24 Fledgling Free (15+)	590	0.93	527,389	1.15	0.11	81
F25 Dependable Me (15+)	1,030	1.63	671,077	1.47	0.15	111
Adults 15+ estimate 2016	63,133	100.00	45,753,164	100.00	0.14	100

G Domestic Success (15+)									
		New Hythe LC - 12 mins		New Hythe LC - 12 mins %	England	England %	England %	Penetration	Index
G26	Cafes and Catchments (15+)	140	0.22	1,043,631	2.28	0.01	10		
G27	Thriving Independence (15+)	2,152	3.41	1,036,942	2.27	0.21	150		
G28	Modern Parents (15+)	1,169	1.85	804,967	1.76	0.15	105		
G29	Mid-Career Convention (15+)	1,313	2.08	1,075,351	2.35	0.12	88		
Adults 15+ estimate 2016									
		63,133	100.00	45,753,164	100.00	0.14	100		
H Aspiring Homemakers (15+)									
		New Hythe LC - 12 mins		New Hythe LC - 12 mins %	England	England %	England %	Penetration	Index
H30	Primary Ambitions (15+)	4,342	6.88	1,303,350	2.85	0.33	241		
H31	Affordable Fringe (15+)	1,103	1.75	1,211,373	2.65	0.09	66		
H32	First-Rung Futures (15+)	678	1.07	595,721	1.30	0.11	82		
H33	Contemporary Starts (15+)	1,977	3.13	855,605	1.87	0.23	167		
H34	New Foundations (15+)	196	0.31	201,465	0.44	0.10	71		
H35	Flying Solo (15+)	317	0.50	217,641	0.48	0.15	106		
Adults 15+ estimate 2016									
		63,133	100.00	45,753,164	100.00	0.14	100		
I Family Basics (15+)									
		New Hythe LC - 12 mins		New Hythe LC - 12 mins %	England	England %	England %	Penetration	Index
I36	Solid Economy (15+)	2,499	3.96	1,187,821	2.60	0.21	152		
I37	Budget Generations (15+)	982	1.57	519,641	1.14	0.19	138		
I38	Childcare Squeeze (15+)	724	1.15	764,797	1.67	0.09	69		
I39	Families with Needs (15+)	500	0.79	1,104,090	2.41	0.05	33		
Adults 15+ estimate 2016									
		63,133	100.00	45,753,164	100.00	0.14	100		
J Transient Renters (15+)									
		New Hythe LC - 12 mins		New Hythe LC - 12 mins %	England	England %	England %	Penetration	Index
J40	Make Do and Move On (15+)	42	0.07	492,066	1.08	0.01	6		
J41	Disconnected Youth (15+)	503	0.80	224,146	0.49	0.22	163		
J42	Middle Stopgap (15+)	3,131	4.96	945,680	2.07	0.33	240		
J43	Renting a Room (15+)	3,388	5.37	1,017,573	2.22	0.33	241		
Adults 15+ estimate 2016									
		63,133	100.00	45,753,164	100.00	0.14	100		
K Municipal Challenge (15+)									
		New Hythe LC - 12 mins		New Hythe LC - 12 mins %	England	England %	England %	Penetration	Index
K44	Inner City Statuarts (15+)	0	0.00	422,218	0.92	0.00	0		
K45	Crowded Kaleidoscope (15+)	0	0.00	619,014	1.35	0.00	0		
K46	High Rise Residents (15+)	0	0.00	149,180	0.33	0.00	0		
K47	Streetwise Singles (15+)	667	1.06	472,806	1.03	0.14	102		
K48	Low Income Workers (15+)	91	0.14	758,230	1.66	0.01	9		
Adults 15+ estimate 2016									
		63,133	100.00	45,753,164	100.00	0.14	100		
L Vintage Value (15+)									
		New Hythe LC - 12 mins		New Hythe LC - 12 mins %	England	England %	England %	Penetration	Index
L49	Dependent Greys (15+)	968	1.53	399,458	0.87	0.24	176		
L50	Pocket Pensions (15+)	949	1.50	629,637	1.38	0.15	109		
L51	Aided Elderly (15+)	2,907	4.60	498,886	1.09	0.58	422		
L52	Estate Veterans (15+)	950	1.50	589,222	1.29	0.16	117		
L53	Seasoned Survivors (15+)	597	0.95	469,853	1.03	0.13	92		
Adults 15+ estimate 2016									
		63,133	100.00	45,753,164	100.00	0.14	100		
M Modest Traditions (15+)									
		New Hythe LC - 12 mins		New Hythe LC - 12 mins %	England	England %	England %	Penetration	Index
M54	Down-to-Earth Owners (15+)	327	0.52	464,834	1.02	0.07	51		
M55	Offspring Overspill (15+)	1,898	3.01	785,952	1.72	0.24	175		
M56	Self Supporters (15+)	741	1.17	628,427	1.37	0.12	86		
Adults 15+ estimate 2016									
		63,133	100.00	45,753,164	100.00	0.14	100		
N Urban Cohesion (15+)									
		New Hythe LC - 12 mins		New Hythe LC - 12 mins %	England	England %	England %	Penetration	Index
N57	Community Elders (15+)	108	0.17	714,921	1.56	0.02	11		
N58	Cultural Comfort (15+)	0	0.00	804,922	1.76	0.00	0		
N59	Asian Heritage (15+)	0	0.00	591,071	1.29	0.00	0		
N60	Ageing Access (15+)	1,593	2.52	503,768	1.10	0.32	229		
Adults 15+ estimate 2016									
		63,133	100.00	45,753,164	100.00	0.14	100		
O Rental Hubs (15+)									
		New Hythe LC - 12 mins		New Hythe LC - 12 mins %	England	England %	England %	Penetration	Index
O61	Career Builders (15+)	383	0.61	740,590	1.62	0.05	37		
O62	Central Pulse (15+)	47	0.07	452,311	0.99	0.01	8		
O63	Flexible Workforce (15+)	155	0.25	837,799	1.83	0.02	13		
O64	Bus-Route Renters (15+)	6,243	9.89	786,393	1.72	0.79	575		
O65	Learners and Earners (15+)	30	0.05	440,013	0.96	0.01	5		
O66	Student Scene (15+)	0	0.00	225,204	0.49	0.00	0		
Adults 15+ estimate 2016									
		63,133	100.00	45,753,164	100.00	0.14	100		

**ESTIMATE OF LATENT DEMAND FOR HEALTH & FITNESS
NEW HYTHE LEISURE CENTRE (FOLKESTONE & HYTHE - 12 minute drivetime)**

MOSAIC UK Type	Total Adult Population (15+)	Total Health & Fitness Demand
A01 World-Class Wealth	0	0
A02 Uptown Elite	138	6
A03 Penthouse Chic	0	0
A04 Metro High-Flyers	0	0
B05 Premium Fortunes	14	0
B06 Diamond Days	1,615	61
B07 Alpha Families	1,115	50
B08 Bank of Mum and Dad	819	39
B09 Empty-Nest Adventure	454	15
C10 Wealthy Landowners	370	9
C11 Rural Vogue	100	2
C12 Scattered Homesteads	19	0
C13 Village Retirement	713	16
D14 Satellite Settlers	504	11
D15 Local Focus	168	5
D16 Outlying Seniors	81	1
D17 Far-Flung Outposts	0	0
E18 Legacy Elders	3,412	112
E19 Bungalow Haven	2,262	60
E20 Classic Grandparents	956	34
E21 Solo Retirees	1,931	61
F22 Boomerang Boarders	1,234	52
F23 Family Ties	1,492	70
F24 Fledgling Free	590	23
F25 Dependable Me	1,030	38
G26 Cafés and Catchments	140	7
G27 Thriving Independence	2,152	88
G28 Modern Parents	1,169	68
G29 Mid-Career Convention	1,313	58
H30 Primary Ambitions	4,342	182
H31 Affordable Fringe	1,103	46
H32 First-RunG Futures	678	25
H33 Contemporary Starts	1,977	80
H34 New Foundations	196	8
H35 Flying Solo	317	13
I36 Solid Economy	2,499	106
I37 Budget Generations	992	34
I38 Childcare Squeeze	724	27
I39 Families with Needs	500	13
I40 Make Do and Move On	42	1
I41 Disconnected Youth	503	14
I42 Midlife Stopgap	3,131	131
I43 Renting a Room	3,388	104
K44 Inner City Stalwarts	0	0
K45 Crowded Kaleidoscope	0	0
K46 High Rise Residents	0	0
K47 Streetwise Singles	667	13
K48 Low Income Workers	91	2
L49 Dependent Greys	968	11
L50 Pocket Pensions	949	11
L51 Aided Elderly	2,907	27
L52 Estate Veterans	950	27
L53 Seasoned Survivors	597	15
M54 Down-to-Earth Owners	327	10
M55 Offspring Overspill	1,898	81
M56 Self Supporters	741	29
N57 Community Elders	108	4
N58 Cultural Comfort	0	0
N59 Asian Heritage	0	0
N60 Ageing Access	1,593	64
O61 Career Builders	383	14
O62 Central Pulse	47	1
O63 Flexible Workforce	155	6
O64 Bus-Route Renters	6,243	196
O65 Learners and Earners	30	1
O66 Student Scene	0	0
Sub Total	63,133	2,187
<i>Add consideration for 20% of Members from outside catchment</i>		
		547
<i>Minus consideration for competition /decay on catchment fringes</i>		
		400
Estimate of Latent Demand for Health & Fitness		2,334

**APPENDIX B: SOFT MARKET TESTING INFORMATION
MEMORANDUM**

Folkestone

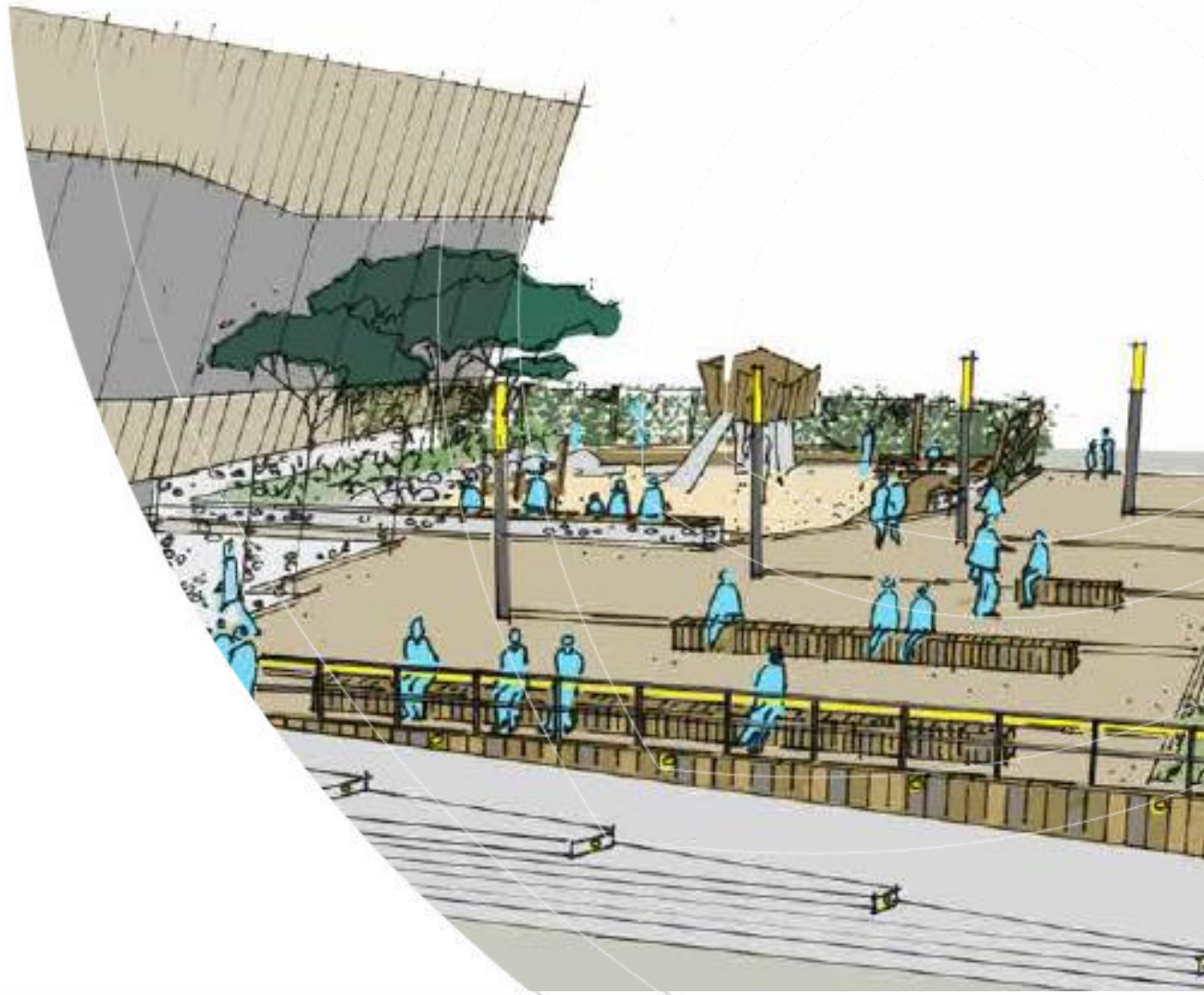
Hythe & Romney Marsh
Shepway District Council



Hythe Leisure Centre Management Contract

Soft Market Testing

28 September 2017



Introduction

The Sports Consultancy has been appointed by Shepway District Council to advise on the business case for the proposed new leisure centre in Hythe. It is intended that the Council will be seeking a third party to operate the new centre. Part of The Sports Consultancy's brief is to complete an initial soft market testing operators to gauge the likely level of interest in the opportunity. This document contains a brief summary of the new facility and the potential opportunity for operators.

The Council currently runs an existing facility, Hythe Pool (South Street, Hythe), which includes a 6 lane 25m main pool, 4m x 9m teaching pool and 9-station gym. The pool was built in 1974 and the building is reaching the end of its useful life. The Council plans to close the existing pool and build a new leisure centre on Princes Parade, Hythe as part of wider development that will include 150 new homes.

It is likely that the opportunity will be advertised in quarter 2 or quarter 3 of 2018. It is estimated that the centre will open in early 2020.

New Hythe Leisure Centre

The new leisure centre will be based on the Sport England recommended Affordable Recreation Centre design and the Council have already employed architects GT3 for the feasibility stage of the project.

The new leisure centre will replace the existing swimming pool with a modern facility that will also include a fitness gym and cafe. The gym and cafe would be seaward facing. It will form part of an attractive new residential development (of 150 units) which is located along the sea front. The leisure centre will be located at the eastern end of the site (see photo above right) with the residential development to the west of it.

The Council has already carried out a detailed assessment of the recreational and health/fitness needs for the community that has identified demand for a new pool and expanded gym provision.

Design Specification

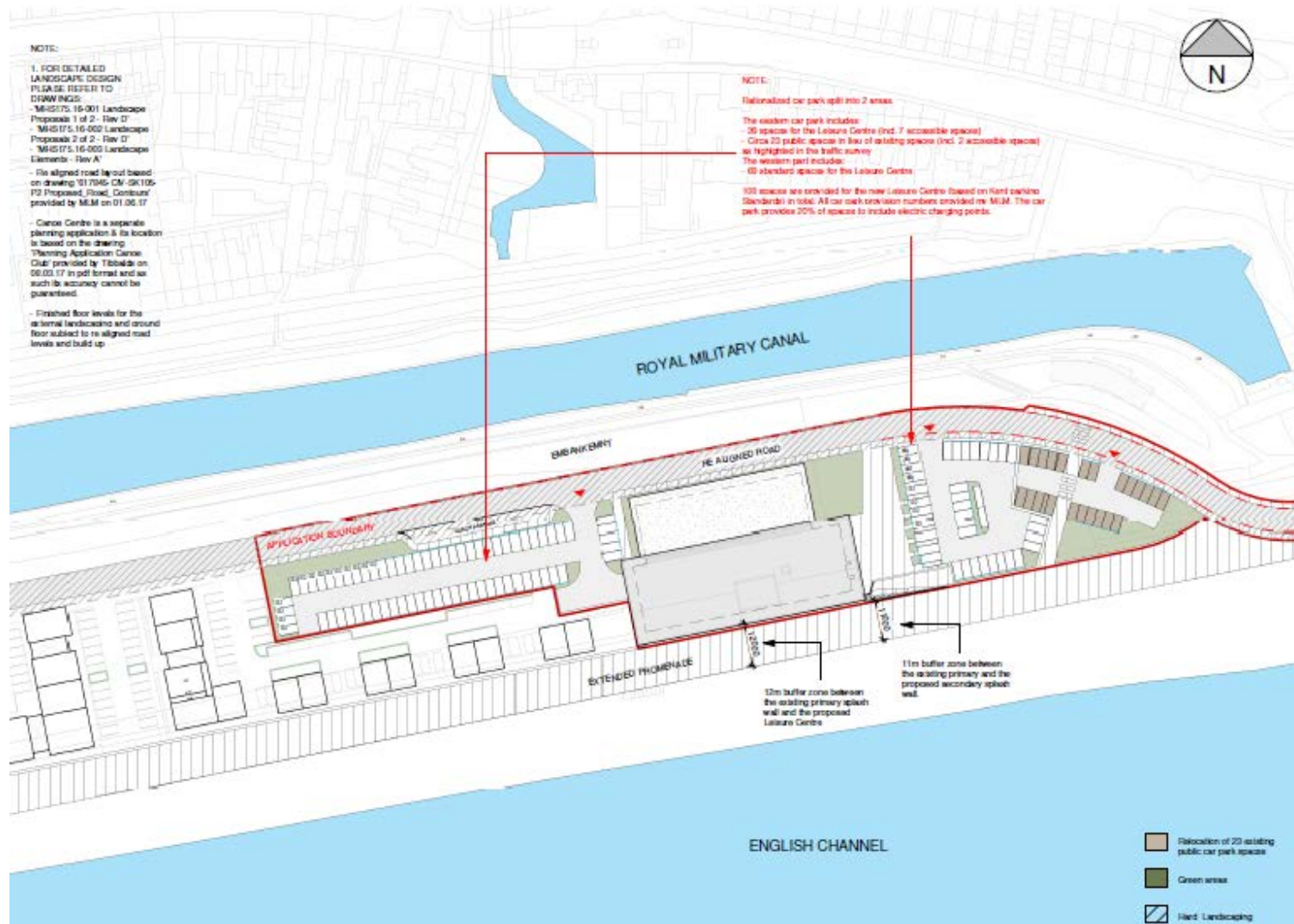
The design is based on the ARC model and will include the following:

- 25m x 6 lane competition equipped swim pool
- Spectator seating (100 person)
- 12m x 4 lane teaching pool (visible from the café seating area)
- Swim village changing /dry change facilities
- 100 station fitness gym
- 3 Fitness Studios
- Café/vending
- 185 spaces and 2 coach bays.

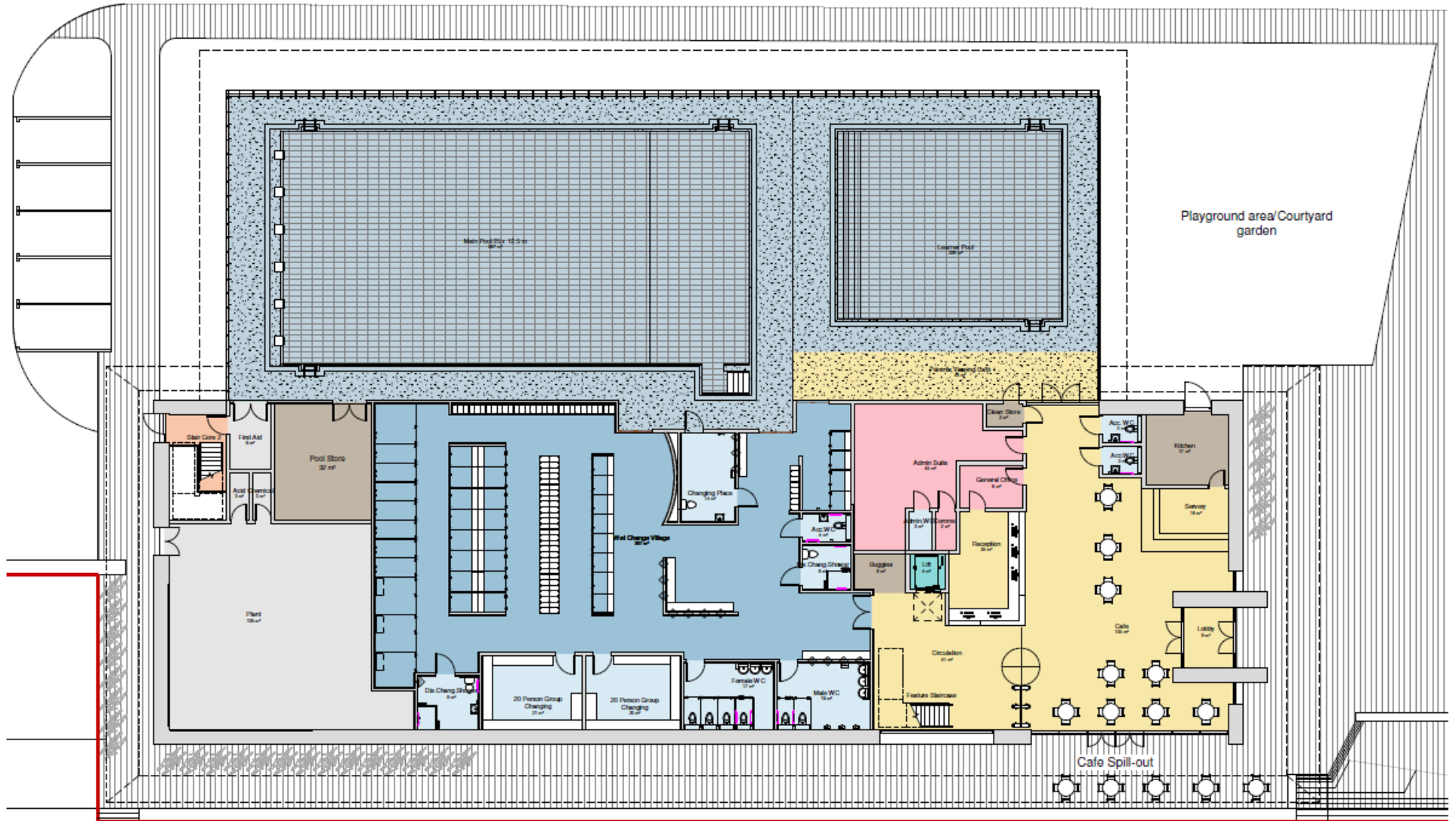
In revenue terms, the Council's aspiration is that the new facility will deliver a neutral management fee or better.



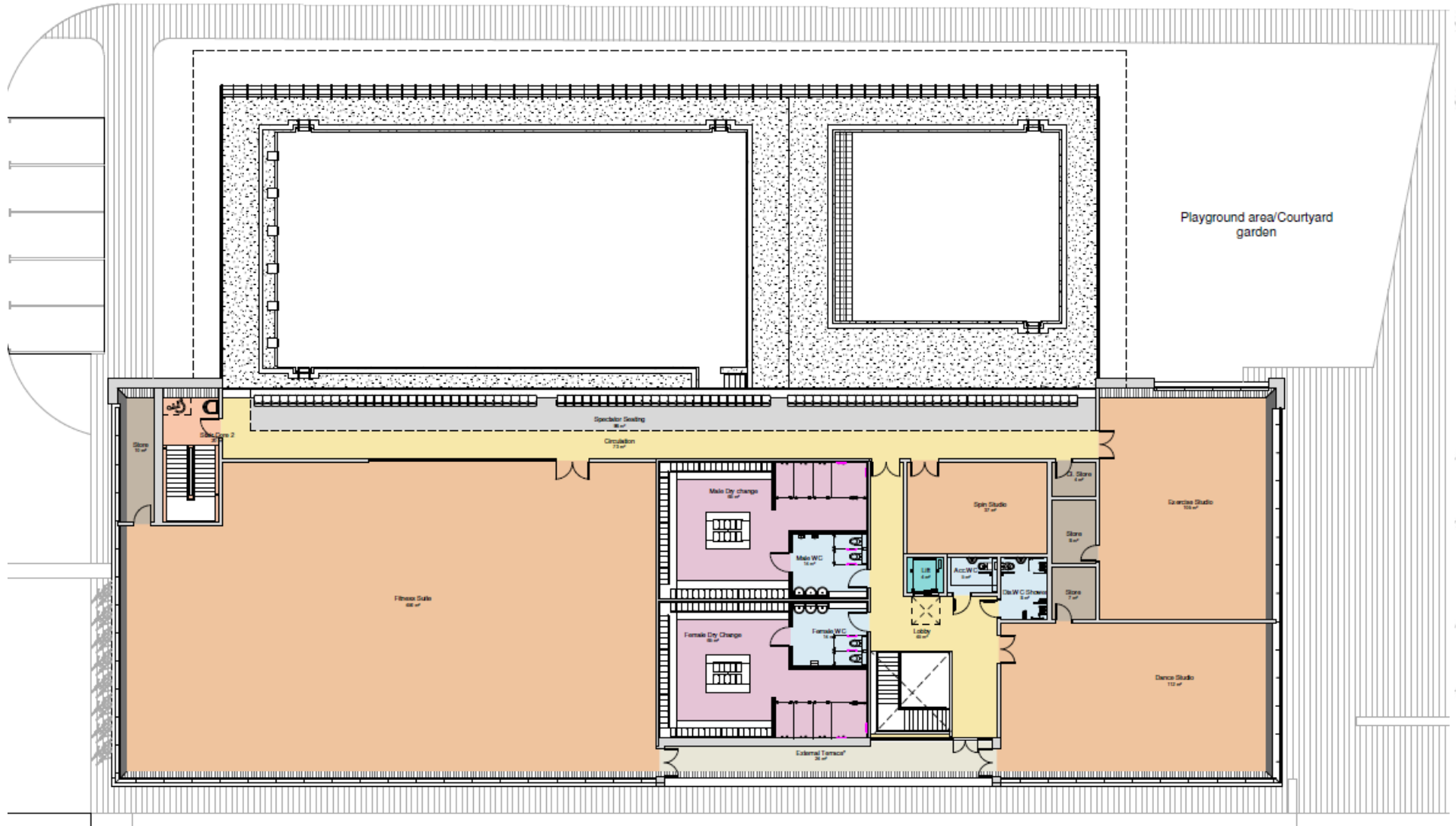
New Hythe Leisure Centre – site plan



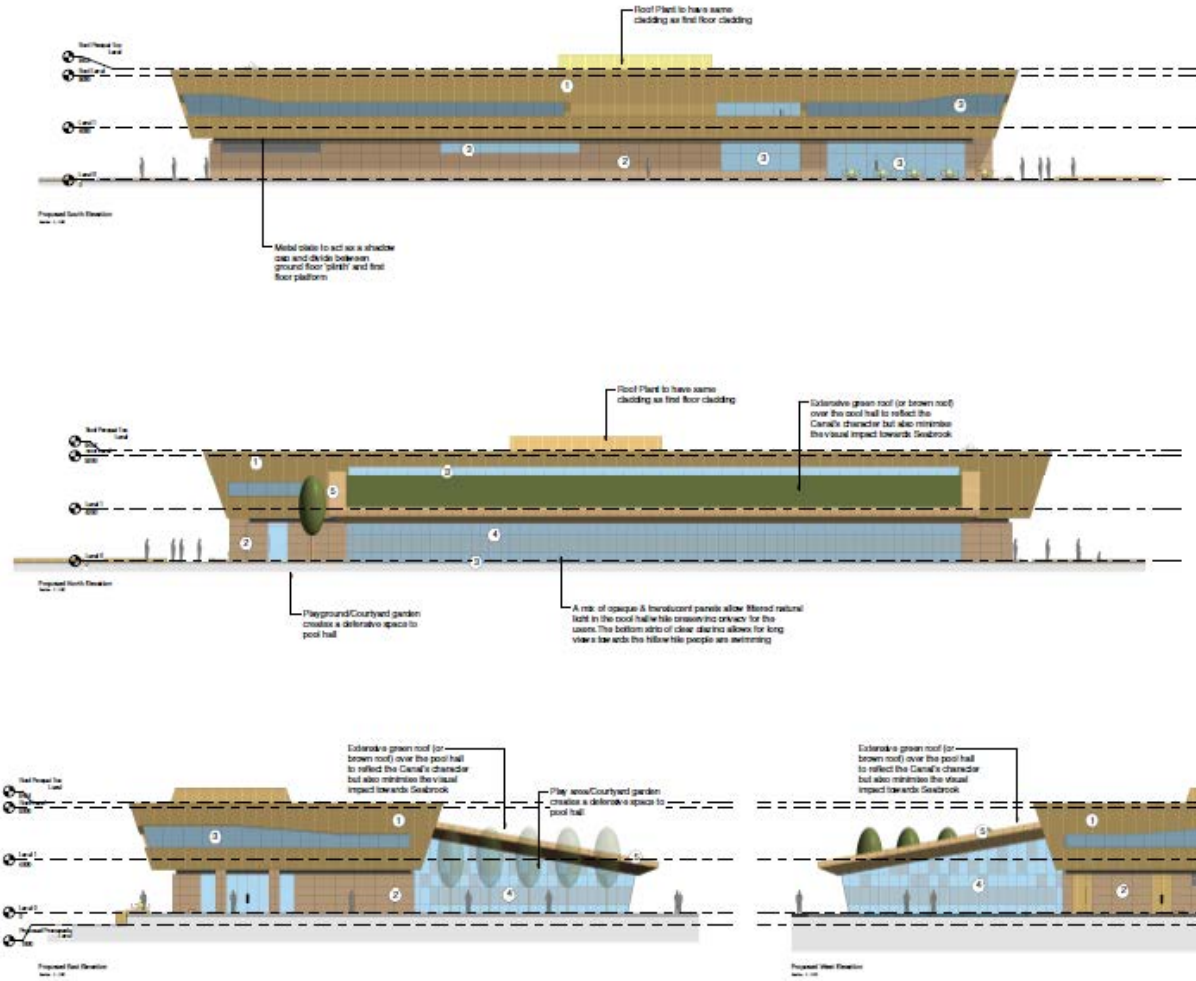
New Hythe Leisure Centre – ground floor plan



New Hythe Leisure Centre – first floor plan



New Hythe Leisure Centre - elevations



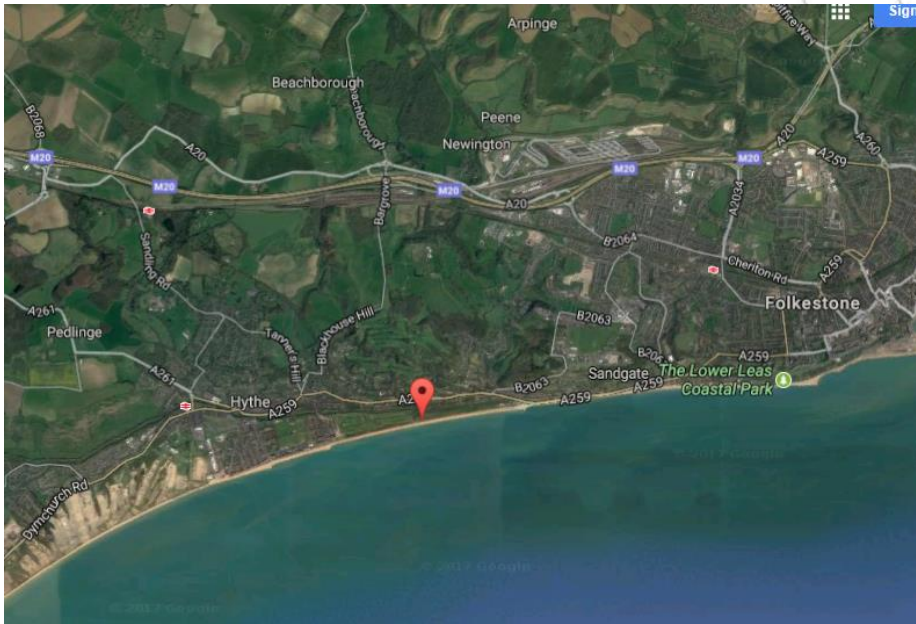
NOTE:
 1. FOR DETAILED LANDSCAPE DESIGN PLEASE REFER TO DRAWINGS:
 - M40175.10.001 Landscape Proposal 1 of 2 - Rev 07
 - M40175.10.002 Landscape Proposal 2 of 2 - Rev 07
 - M40175.10.003 Landscape Elements - Rev A'



Location and Catchment

Shepway is a district located in south Kent that covers an area of 138 square miles. It is bounded on the north by Ashford and Canterbury districts; on the east by Dover and on the south by the English Channel. Four out of five towns in the district are located along the coast. Most of the population lives in the coastal towns of Folkestone and Hythe.

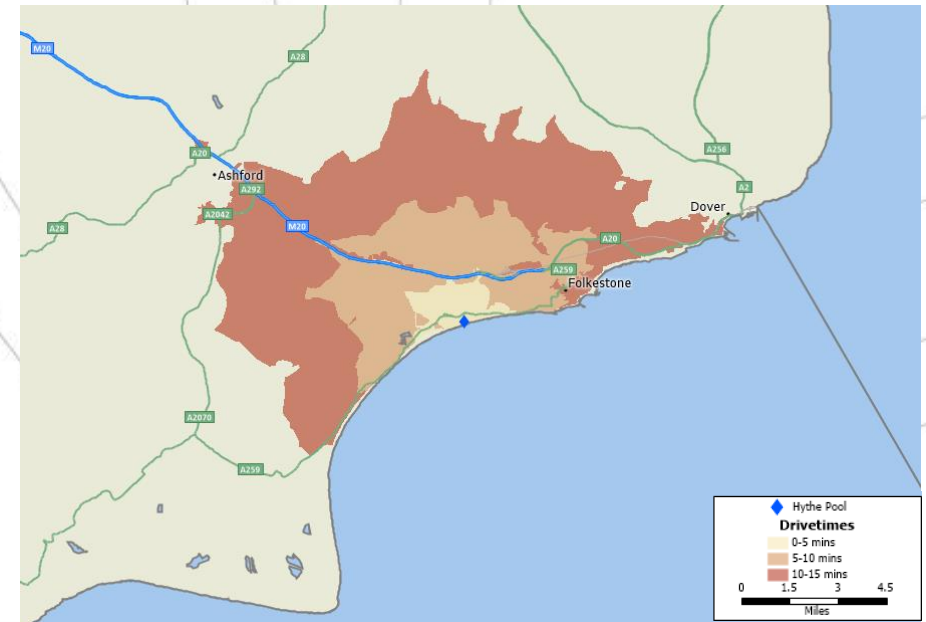
The location of the site is illustrated on the map below.



The location of the new site - Princes Parade – sits just south of the main road linking Hythe with Folkestone. The 15-minute drive catchment map is displayed below. The population within this catchment is 117,474 and breaks down as follows:

- 0-5 mins: 9,136
- 5-10 mins: 51,839
- 10-15 mins: 56,499

In terms of the age profile, in the 15-minute catchment as a whole, 18.7% are aged under 16, 62.5% are 16 to 65 and 18.8% are over 65. Within the 0-5 minute drivetime, the percentage of older people is higher (28.4%). The age profiles for the 5-10 minute and 10-15 minute catchments are similar to the 0-15 minute catchment as a whole.



Contact Details

1. Is the management contract for the new Hythe Leisure Centre of interest to you?
2. If you are not interested, please give brief reasons?
3. Do you have a preference on the length of the contract?
4. Do you have any other comments or questions regarding the opportunity?

Please send your response by Friday 6 October via e-mail to:

simon@thesportsconsultancy.com

If you need any further information please contact:

Simon Molden
The Sports Consultancy
Mobile: +44 (0)7825 226922 (primary contact number)
Tel: +44 (0)20 7323 0007 (alternative contact number)

Please note that the information provided in your response will be treated as confidential and will be used only for the purpose of the soft market testing exercise.

**APPENDIX C: PROCUREMENT AND PROGRAMME REVIEW
REPORT (HADRON)**



Princes Parade Hythe
Procurement and Programme Review
17 January 2019

Strictly private and confidential © Hadron Consulting Ltd

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Contractor Procurement	6
Consultant Procurement	25
Programme	38
Summary	44

1. Introduction

Introduction

Project Background

Folkestone and Hythe District Council (the Council) is developing a new mixed use scheme on Princes Parade, including a new Leisure Centre, residential homes, a hotel and new public realm. This will also require site remediation, new and diverted utilities, and realignment of Princes Parade.

The new Leisure Centre will replace the existing Hythe Pool, which is in poor condition and no longer meets the needs of the local community. This will free up this site for residential development.

The residential and hotel developments on Princes Parade and the existing Hythe Pool site will help cross fund the new Leisure Centre, although this won't cover the full cost of the Leisure Centre and the enabling works, and further 'public sector' will come from other sources such as S106 and CIL.

A hybrid planning application has been submitted, which includes detailed information about the Leisure Centre and outline information for the residential development.

Cabinet approval to proceed 'subject to planning' is being sought in parallel with this to enable the project to progress once planning consent is received. This will allow the appointment of the consultant team, further surveys and the procurement of the construction contractors for the work being carried out by the Council.

Procurement and Programme Review

This report discusses the options for the procurement of the Contractor and Consultant Team, and considers the programme for delivery.

Council Priorities

The following are considered key priorities and this will directly influence the procurement route adopted:

- Programme - The existing centre is in poor repair so programme is important however this shouldn't be at the expense of quality.
- Cost certainty - A fixed price needs to be obtained for the construction contract before works start on site. Cost certainty is also required on the development receipts and operator contract. Ideally the point at which the Council enters into all of these contracts should be aligned to give the Council high levels of cost certainty.
- Risk transfer - Risk should be transferred to the contractor where appropriate. This will require risk to be mitigated as much as possible to enable a contractor to take on risk without adding a significant cost premium.
- High quality - This is a high priority however this must be balanced against obtaining cost certainty and risk transfer where appropriate. It will therefore be important to ensure the design is developed to a reasonably high level of detail to protect the design intent.
- Compliant with Public Contract Regulations - e.g. OJEU compliant.
- Experience - It is critical that both the consultant team and the contractor have a track record of working on leisure buildings, particularly those with pools, which are particularly complex projects. This is a high priority for this project.
- Early contractor involvement – Given the complexity and risks involved, there would be benefit to bringing a contractor on board during the design development stage.

Terminology

The level of design development is referred to using the definitions provided by the Royal Institute of British Architects, the “RIBA”, and for ease of reference the main design stages are noted in the adjacent table. We have also referenced the latest definitions from the RIBA Plan of Work 2013 with those in the previous version, the RIBA Outline Plan of Work 2007, which is still referred to in the construction industry.

Previous RIBA Stage (2007 Plan Of Work)	RIBA Stage (2013 Plan Of Work)	Summary	
No stage in 2007 Plan of Work	Stage 0 Strategic Definition		Identify Client’s Business Case and Strategic Brief and ensure these have been considered.
Stage A (Appraisal) & B (Strategic Brief)	Stage 1 Preparation and Brief		Develop project objectives including quality objectives, project outcomes, sustainability aspirations, budget and any other parameters and develop initial Project Brief. Undertake feasibility studies and review site information.
Stage C Outline Proposals	Stage 2 Concept Design	Town Planning Submission*	Prepare Concept Design for architectural, structural and services designs, outline specifications and preliminary cost information in accordance with design programme. Agree alterations to brief and issue final Project Brief.
Stage D Detailed Proposals	Stage 3 Developed Design		Prepare Developed Design, including coordinated and updated proposals for architectural, structural and services designs, outline specifications, cost information and project strategies in accordance with programme. Room data sheets are also included in this stage.
Stage E Final Proposals	Stage 4 Technical Design		Prepare Technical Design in accordance with design responsibility matrix and project strategies to include all architectural, structural and services information, specialist subcontractor design and specifications in accordance with design programme.
Stage F Production Information			Preparation of tender documents, tendering the works and contractor selection. This is a variable task and depends on the procurement route as to when it is completed.
Stage G (Tender Documentation) & H (Tender Action)		Tender Documentation and Tender Action	
Stage J (mobilisation) & K (Construction Period)	Stage 5 Construction		Mobilisation, offsite manufacturing and onsite construction in accordance with programme and resolution of design queries from site as they arise.
Stage L Defects Liability Period	Stage 6 Handover & Close-Out		Handover building and conclude contract. The Client will move into the new building once the building has been handed over.
N/A – New Stage	Stage 7 In Use		Undertake ‘in use’ services in accordance with schedule of services, e.g. post occupancy evaluation and review of project performance.

2. Contractor Procurement

Contractor Procurement

Introduction

This section considers the contractor procurement route and options to appoint the contractor. More specifically this section discusses the following issues and provides an initial recommendation for the Princes Parade project based on the Council priorities outlined earlier in the report:

- Procurement routes
- Tender options
- Commercial basis
- Frameworks verse OJEU

The procurement strategy should result from an objective assessment of the client's needs, attitude towards risk and the project characteristics. The aim of any procurement strategy is to achieve an optimum balance of risk, programme control and funding for a particular project. No single procurement strategy is suitable for all projects and all clients.

An inappropriate procurement strategy can result in a failure to achieve the client's objectives, result in a client's disappointment and could lead to disputes.

If exceptional circumstances occur once a strategy is agreed that may affect the priorities on cost, programme (time), quality, or the client's ability to manage risk, the procurement strategy should be reviewed again and options reconsidered if necessary.

The selection process should provide a best fit solution based upon good judgement as to what is acceptable in terms of identified criteria and distribution of risk.

Procurement Requirements

The broad purpose of contract procurement is to appoint an appropriately skilled contractor with the right team, agreed costs, programme and appropriate transfer of risk. This simple objective has become more difficult to achieve as project programmes are condensed, and both clients and contractors seek to protect their position with regard to apportionment of risk.

Whilst it might seem a little premature to consider the contractor procurement, the whole structure of the project and the way in which the consultant team is procured is influenced by this.

It is also important to have a clear 'end game' and align the procurement and selection of the consultant and contractor with this, and ensure that this will facilitate the selection of the right team for the project.

Market Context

The construction market contracted during the recession and is struggling to cope with the increase in construction projects coming to the market. Brexit has added another element of uncertainty. Contractors are therefore being more selective about the projects they bid for and clients need to work hard to make their project attractive to the market.

The location of the Princes Parade project also reduces the number of contractors with the capability and experience to do this type of project.

It will be important to carry out soft market testing of the preferred procurement route with key contractors before finalising the procurement strategy.

Contractor Procurement

Disposal Strategy

The BNP Paribas 'Marketing and Disposal Advice' report considers the disposal options for the development site.

This identified the following preferred option:

- Council appoints contractor (either through OJEU or a framework) to deliver the Leisure Centre and site-wide infrastructure and decontamination in accordance with the hybrid planning application.
- Separately market the residential development opportunity, splitting the residential development into two opportunities to reduce the lot size and further broaden market appeal, but include an option to allow residential developers to bid for both sites.
- Twin track the Leisure Centre construction contract and selection of the residential developer, and commit to the construction contract once contracts have been exchanged with the residential developer. The residential developer would then progress a reserved matters application for the residential elements of the masterplan, while the site preparation works are underway.
- Consider seeking conditional and unconditional bids, so that the Council can determine the optimal balance between maximising its financial receipt and minimising any financial exposure in terms of delay between letting the construction contract for the Leisure Centre and receiving capital receipts from the residential development.

This is identified as the preferred disposal strategy as it:

- Maximise financial receipt.
- Reduce complexity and procurement risk.
- Maximise market interest.

This is a sensible approach and the Contractor Procurement section of our report therefore focuses on the appointment of the contractor by the Council to deliver the Leisure Centre, the infrastructure and the associated remediation works, with the developer(s) appointing their own contractor to build out the development site.

Single contractor or multiple contractors?

Consideration could be given to splitting the Leisure Centre and infrastructure and remediation works and appointing different contractors for each.

Whilst this will save a main contractor mark up on the infrastructure and remediation works, for the Princes Parade project we would recommend that the Leisure Centre and the infrastructure and remediation works are carried out through one contractor for the following reasons:

- Given the Council's requirement for cost certainty on the project, it is unlikely to want to progress the infrastructure and remediation works ahead of the Leisure Centre project, particularly if the cost of the Leisure Centre hasn't been confirmed. This reduces the opportunity for enabling works under a separate contract.
- By having a single contractor responsible for all of the works it is more likely to be properly coordinated.
- The risk associated with delay sits with one contractor. If there are two contractors, there could be a claim from the other one if their work is affected by the other contractor, or if they are delayed by the late completion of the other contractors work.
- Simplified tender process and reduced contract administration.
- Programme benefits by running the Leisure Centre, infrastructure and remediation works in parallel.

In the following pages we therefore discuss the procurement options assuming a single contractor is appointed for both the Leisure Centre and the infrastructure and remediation works.

Procurement Route

Traditional

With traditional contracting, design is completed prior to construction to fully define the client requirements and will be suitable for construction. There are three key teams in the procurement process: the client, the design team and the contractor.

Having developed a Design Brief from the employer, the architect produces detailed drawings and specifications, with advice taken from other specialist consultants. Bills of quantities are usually drawn up by the quantity surveyor and an estimated cost produced once the design is complete.

Contractors are invited to price the works, quantifying every specific work item from the bills or a specification. Tenders are submitted and a preferred contractor (usually the cheapest) is selected. The contractor agrees to produce exactly what has been specified in the documents and therefore has no design liability.

Traditional contracting is a slow method of procurement as the detailed design and specification needs to be completed prior to tendering the works and a long tender period is required to accurately price the works.

Once on site, the client with the project manager must manage the contract efficiently to avoid problems associated with issuing instructions and information. It is to the contractor's advantage if information is insufficient or issued late as this will establish grounds for extensions of time and claims for loss and expense.

Traditional contracting can provide a good level of cost certainty based on a defined product however, as the client remains responsible for the design, any design defects have to be corrected at the client's expense.

Cost certainty can however only really be attained once the works have been tendered, which takes place once the design is substantially complete. Should the submitted tenders be significantly higher than the cost estimate prepared by the quantity surveyor, thus requiring a significant redesign to reduce costs, then there will be a substantial amount of abortive design and cost. This will also delay the project by many months.

Traditional contracting should deliver a quality building as the standards can be precisely described in the specification, however the designers may not be aware of similar more cost effective products which could help keep costs down without compromising quality and improve buildability.

Under a traditional contract, the client can change an element of the design during construction. However, as the employer will have to bear all direct and associated costs such flexibility comes at a high price.

The client is liable for any defects due to poor design and specification whilst the contractor is liable for defective construction.

A traditional procurement route is **not recommended** for this project as the residual risks cannot be transferred to the contractor, and time and cost certainty would be difficult to achieve.

Procurement Route

Management Contracting

In management contracting, the client engages a management contractor at an early stage of the project to act as a professional consultant advising on the design and managing the construction works. The management contractor is not employed to undertake any of the construction works, they are all sub-contracted. The client pays the contractor a fee for the management service.

Management contracting is claimed to reduce the conflict between the design team and contractors, which can occur on construction projects.

Under this form of contracting the management contractor bears very little risk. The management contractor has no design responsibility and is usually not responsible for the work carried out by the sub-contractors.

Management contracting can deliver projects quickly as works can commence on site before the design is completed.

However, there is very little cost certainty in management contracting as it is impossible to be confident of the final project cost until all of the sub-contracts are entered into.

It should be possible to achieve the required quality standards, however, the designers will be under great pressure to keep pace with construction and design decisions may therefore suffer.

Construction management offers a great deal of flexibility for altering the construction works. However, all alterations to the works during construction are more expensive than if the design is right first time.

Liability for design defects usually remains with the client and the sub-contractors are liable for construction defects.

Management contracting should only be considered if the client is in a position to fully appreciate, control and mitigate the risks inherent in construction. This is very much the preserve of experienced developers and the problems that blighted the Scottish Parliament demonstrate some of the downsides of this procurement route.

Management contracting is therefore **not recommended** for this project due to the lack of cost certainty and the limited opportunity to transfer risk.

Construction Management

Construction management is very similar to management contracting however with construction management the client has a direct contract with each of the works sub-contractors. A consultant construction manager is employed by the client to oversee the project and co-ordinate each of the contracts. Construction management provides flexibility in that additional works/changes to the brief can be introduced at an advanced stage however, the cost and programme implications of any changes will be born by the client.

Construction management is therefore **not recommended** for this project.

Procurement Route

Partnering

Originally promoted in the Egan Report ('Rethinking Construction') in 1998, partnering was seen as a method of integrating the different facets of the project process to deliver best value to the client and user.

It aims to deliver this by ensuring that the full project team, including the contractor, act co-operatively and make decisions in a blame-free environment of trust. This seeks to raise the collective performance and aids more effective working with a focus firmly on agreed common goals. It does this through setting parameters whereby all contracting parties work towards shared goals and objectives and often share any penalties and/or rewards as a result.

The efficacy of partnering is most prominent when embracing the combined talents of the full project team (including client, design team and contractor) as early as possible. For partnering to work best, the team must therefore be in place from concept to completion and be wholly focused on the needs of the client and users.

There are clear benefits to a partnering approach where relationships have been built up over a period of time and a mutual trust has developed. Many partnership arrangements have grown out of formal contractual arrangements.

Good examples would be a supermarket chain or housing association rolling out a fairly simple building type, whereby the contractor is incentivised to do a good job otherwise they would lose significant volumes of future work available from that organisation.

The main downside to partnering is that they rarely achieve best/lowest price or is a fixed price obtained any earlier than it would under other procurement routes. Partnering lends itself to a 'cost plus' arrangement (e.g. the actual cost of the work, plus the contractors pre-agreed overheads and profit) and is not best suited to a lump sum or fixed price contract. There is also limited opportunity to transfer risk to the contractor, and risk is often shared between the parties.

Partnering is therefore **not recommended** for this project.

Design and Build

In design and build, the client provides the contractor with a set of performance requirements defining what is to be provided. The contractor responds with a proposal, including prices for construction and design works. The client and contractor negotiate to ensure the contractor's proposals accurately reflect the client's requirements and agree a mutually acceptable specification.

Under this form of contract the contractor is solely responsible for design, fabrication and co-ordination of the works as described in the contractor's proposals, including the appointment of specialist consultants and sub-contractors.

The client will usually utilise a consultant to prepare the Employer's Requirements and to monitor the progress and quality of the works.

Under design and build the contractor is responsible for all aspects of the work. This single point responsibility can be highly attractive and advantageous to clients.

Design and build has a time advantage as design work does not have to be completed before construction can begin. The development is therefore complete much sooner than under more traditional forms of contract.

Design and build offers high cost certainty as the contractor is obliged to do whatever is necessary to comply with the contractual requirements. All risk of the cost exceeding the price lies with the contractor and as a result design and build contracts offer the highest level of cost certainty. Tendered costs may be slightly higher than with other procurement routes in order to cover the contractor's liability or risk.

Cost certainty can be attained at an early stage in the design and abortive costs are therefore less should the contractor tenders be more than the cost estimate prepared by the cost consultant and a redesign required.

It is especially important to provide the design and build contractor with accurate information on site conditions and ecology at tender stage to avoid additional costs or delay.

Procurement Route

Quality control problems are often given as a reason for not selecting design and build. However, provided the Employer's Requirements document is sufficiently detailed and quality is closely monitored on site, it is possible to achieve a good quality building.

With design and build contracts it is difficult to vary the works significantly once the contractor is appointed. Variations can be awkward to deal with and are best avoided. This can best be done by ensuring that an accurate and comprehensive Employer's Requirements document is prepared and agreed with all parties before the contract is let.

Develop and Construct

If the client wants to be closely involved in the development of the concept design it is advisable to adopt a client led design approach. The client's design team works up the design in some detail, typically to RIBA Stage 4a, to ensure that the brief can be met and that a unique design is achieved. The design team may subsequently be appointed by, or novated to, the successful design and build contractor. This procurement route is often referred to as 'Develop and Construct', as opposed to design and build, as the contractor is only required to carry out limited elements of the detailed design.

Develop and Construct allows changes in the brief to be integrated into the design for an extended period prior to tendering, which will be important where there are several key stakeholders and funders. Although changes post tender should ideally still be avoided, essential changes may be accommodated without penalty if a disciplined change order procedure is adopted.

Develop and Construct has many of the advantages of design and build with regard to speed of design development, with the residual risks associated with shortcomings in the design and temporary works being transferred to the contractor. However, the design and quality of workmanship can be closely prescribed in order to achieve a fixed price tender from the successful contractor for a defined product.

A Develop and Construct procurement route is therefore **recommended** for this project, with the design being progressed to a more advanced stage, e.g. RIBA Stage 4a (previously RIBA Stage E).

Tender Options

Single-stage tender

A 'single-stage' approach is where the work is tendered once the design has been developed to the required level, in this case to Stage 4a assuming a Develop and Construct approach. A fixed price is then provided by the tenderers, upon which the client can enter into the construction contract with the successful contractor.

This approach requires full and complete tender information to work most effectively, and assumes requirements will not change substantially. Thereafter, it relies upon the tendering process to drive competition and, hopefully, an economical price. There is however no contractor involvement during the early design stages.

In a buoyant construction market many contractors decline single-stage tenders – partly because it typically provides less visibility of risks or unknowns, and partly because it is more expensive to undertake than two-stage tendering.

Over the past couple of years many of the larger contractors have been unwilling to tender on a single stage basis. We have started to see a slight shift in this as contractors look to secure their forward orders however it is unlikely that the bigger contractors, who are more suited to this type of project, will be interested in tendering this project on a single stage basis due to the level of risk involved.

To successfully pursue this route, clear and comprehensive tender information, an effective market warm-up and mid-tender consultations are pre-requisites. Soft market testing with key contractors is also recommended.

Two-stage tender

A 'two stage' approach has two stages to the tender process.

The first stage tender takes place much earlier in the design process, and before the design is fully developed, with the price being based on the contractors staff costs, overheads and profit, preliminaries and even some early packages where this is defined.

The contractor is then appointed under a Pre-Contract Services Agreement (PCSA) to work with the client's project team to develop the design to the required level, e.g. Stage 4a in this case, at which point the contractor tenders the sub-contractor packages on an open book basis. This is the second stage tender. The overheads, profit, prelims, etc. agreed at the first stage are then applied to the sub-contractor prices to confirm the contract sum. The client enters into the construction contract at this point on a fixed price, guaranteed maximum price (GMP) or target price.

The main benefit to a two stage approach is earlier contractor involvement, and two-stage tendering provides an opportunity to capture contractors' ideas in buildability, programming and design, and is particularly relevant for complex projects. It is also more attractive to the larger contractor who will be more suited to this type of project.

Two stage is often perceived as being a more expensive option than single-stage (albeit difficult to quantify), but the premium can be often recovered through a more cost-effective design and enhanced programme due to the contractor's input.

This option is not however without its challenges and it has begun to get somewhat of a bad reputation with contractors increasing costs at the last minute where they know programme is critical, including significant cost to cover perceived risks, and plugging gaps in tender returns with high rates.

Although overhead, profits and prelims are fixed, and the work packages procured on an open-book basis, the contractor will include contingencies for design development and project risks, often amounting to 10% or more of the contract sum. As these provisions are negotiated during the second stage, they are not typically subject to market competition and can involve extensive negotiations, which can increase both cost and programme.

To make best use of a two stage tender, the contractor should be brought on board as early as possible so they can input into the design development and risk mitigation, and maximise the benefit of early contractor involvement on buildability issues.

Tender Options

Hybrid

The main reason larger contractors aren't willing to tender on a single stage basis is that the OJEU process requires at least five contractors to be invited to tender. This can create a situation where larger contractors are tendering against smaller contractors who will often be more competitive due to lower overheads and a willingness to take on more risk.

One way to try and overcome this is to use the OJEU 'Competitive with Negotiation' route to run a two stage process, but to select two contractors to price the second stage in competition on a fixed price basis. The unsuccessful contractor could also be paid something towards their bid costs (say £50,000). This won't cover all of their costs but this, and the reduced tender list, will make the project more attractive to larger contractors.

Whilst the Hybrid option will make it more attractive to the market, many contractors will still not be interested due to the high bid costs associated with the two stage approach, even where they have a 50% chance of winning. There is also a risk of one or both contractors withdrawing at some point during the second stage, particularly if the tender documents aren't as robust as they would like, risks haven't been mitigated, they no longer have the capacity to tender or carry out the job, or if there is a mismatch in scale of the two chosen contractors.

Therefore given the current market conditions in the construction industry, the complexity of the project and the high level of risk associated with this, the project location, and the Council's priority for a high quality product, a two stage tender approach is recommended. This will generate an appropriate level of contractor interest whilst also gaining from the benefit of early contractor involvement on buildability issues. This does however need to be complimented with a consultant team that is experienced in this procurement route to keep the contractor honest and ensure the right price is obtained at the second stage.

Procurement Route Summary

Route	Pros	Cons	OJEU	Framework	
Traditional	<ul style="list-style-type: none"> Complete control over design and product selection. Reduction in post contract changes. 	<ul style="list-style-type: none"> Longest lead time before starting on site, therefore longer overall programme. Design risk sits with client. No price certainty until much later in project. No sub-contractor input. No incentive for contractors to solve problems. Rarely used for this type of project. 	<ul style="list-style-type: none"> Yes. OJEU 'Restricted' route. 	<ul style="list-style-type: none"> No. This approach is rarely used under framework agreements. 	
Management Contracting / Construction Management	<ul style="list-style-type: none"> Client retains full control of the project. Design and construction overlapped, reducing overall programme. Flexibility to make changes. Open book approach. 	<ul style="list-style-type: none"> Client unable to transfer design and project risks. Increased contract management. No price certainty until very late in the construction phase. Very resource intensive for client team. More suited to large complex projects. 	<ul style="list-style-type: none"> Unlikely an individual package will be over OJEU threshold. 	<ul style="list-style-type: none"> No. 	
Partnering	<ul style="list-style-type: none"> Least adversarial. Open book approach. Early contractor input on buildability issues. Should achieve a high quality product. 	<ul style="list-style-type: none"> More costly. Client unable to transfer design and project risks. No price certainty until end of construction phase. Not suited to one off projects where there is little opportunity to benefit from long term relationship. 	<ul style="list-style-type: none"> Yes, but not ideal. 	<ul style="list-style-type: none"> No. Although some frameworks do introduce an element of partnering. 	
Single stage Design & Build	<ul style="list-style-type: none"> More likely to achieve lowest price. Early cost certainty. Contractor takes on design liability. Risk transfer to the contractor. Design and construction can be overlapped reducing the overall programme. Client can choose extent of design carried out prior to commencing on site. 	<ul style="list-style-type: none"> Loss of control over product selection (this depends on the level of design carried out prior to tender and how detailed the Employer's Requirements are). Post contract changes often more expensive. Quality can suffer (this depends on the completeness of the design and Employer's Requirements and how well the construction phase is monitored). Contractors are less willing to participate in a single stage tender in a buoyant market, particularly the bigger contractors that would be more appropriate for this project. 	<ul style="list-style-type: none"> Yes. OJEU 'Restricted' route. Note that some legal advisors are advising that the OJEU process can't be started until planning has been granted and the final tender documents are available. 	<ul style="list-style-type: none"> Not usually. A single stage procurement route is not suited to a framework agreement. 	
Recommended	Two stage Design & Build	<ul style="list-style-type: none"> Can achieve a reduced programme over single stage as design and tender stages can be overlapped to a greater extent. Early contractor involvement where buildability is important. This will be important for complex projects. More likely to receive a quality product as the contractor margins aren't as tight. Contractors more willing to tender this route in a buoyant construction market. 	<ul style="list-style-type: none"> More expensive than single stage due to reduced competition. In our experience it is 7.5%-10% more expensive. However, this is a premium worth paying where quality is important and it is a complex project. Conclusion of second stage tender can be protracted. Loss of control over product selection (this depends on the level of design carried out prior to tender and how detailed the Employer's Requirements are). Post contract changes often more expensive, although this can be managed with good change control procedures. 	<ul style="list-style-type: none"> Yes. OJEU 'Restricted' route is normally used, although some legal advisors will advise that a two stage approach isn't strictly OJEU compliant. 	<ul style="list-style-type: none"> Yes. A framework is ideally suited to a two stage procurement route.

This is reviewed in the following sections

Commercial Basis

Below set out are three commercial approaches to pricing, each of which has advantages and disadvantages:

Basis	Advantages	Disadvantages
Fixed Price	<ul style="list-style-type: none"> • High level of cost certainty. • Clear basis for risk transfer. • Most effective where design and client requirements are fully detailed. 	<ul style="list-style-type: none"> • Fixed price doesn't mean final price – changes and/or risk can add to costs. • No mechanism for sharing savings. • Requires full and complete information for competitive pricing. • Change can be more expensive.
Guaranteed Maximum Price (savings shared in agreed %'s)	<ul style="list-style-type: none"> • Good level of cost certainty. • Contractor can be incentivised to find savings. • Opportunity for client to share savings. 	<ul style="list-style-type: none"> • Contractor is only motivated to find savings if GMP has some premium in it. • GMP doesn't always mean maximum price – changes and/or risks can add to costs. • Contractor may be resistant to changes which could impact price or programme.
Target Cost / Shared Risk and Reward (savings and overspend shared in agreed %'s)	<ul style="list-style-type: none"> • Equitable risk sharing incentivises contractor, so more willing to find cost-effective solutions. • Opportunity for client to share savings. • Least expensive route for change. 	<ul style="list-style-type: none"> • Lower level of cost certainty. • Risk of shared cost over-runs. • More client involvement required to drive value. • Clarity needed on risk transfer.

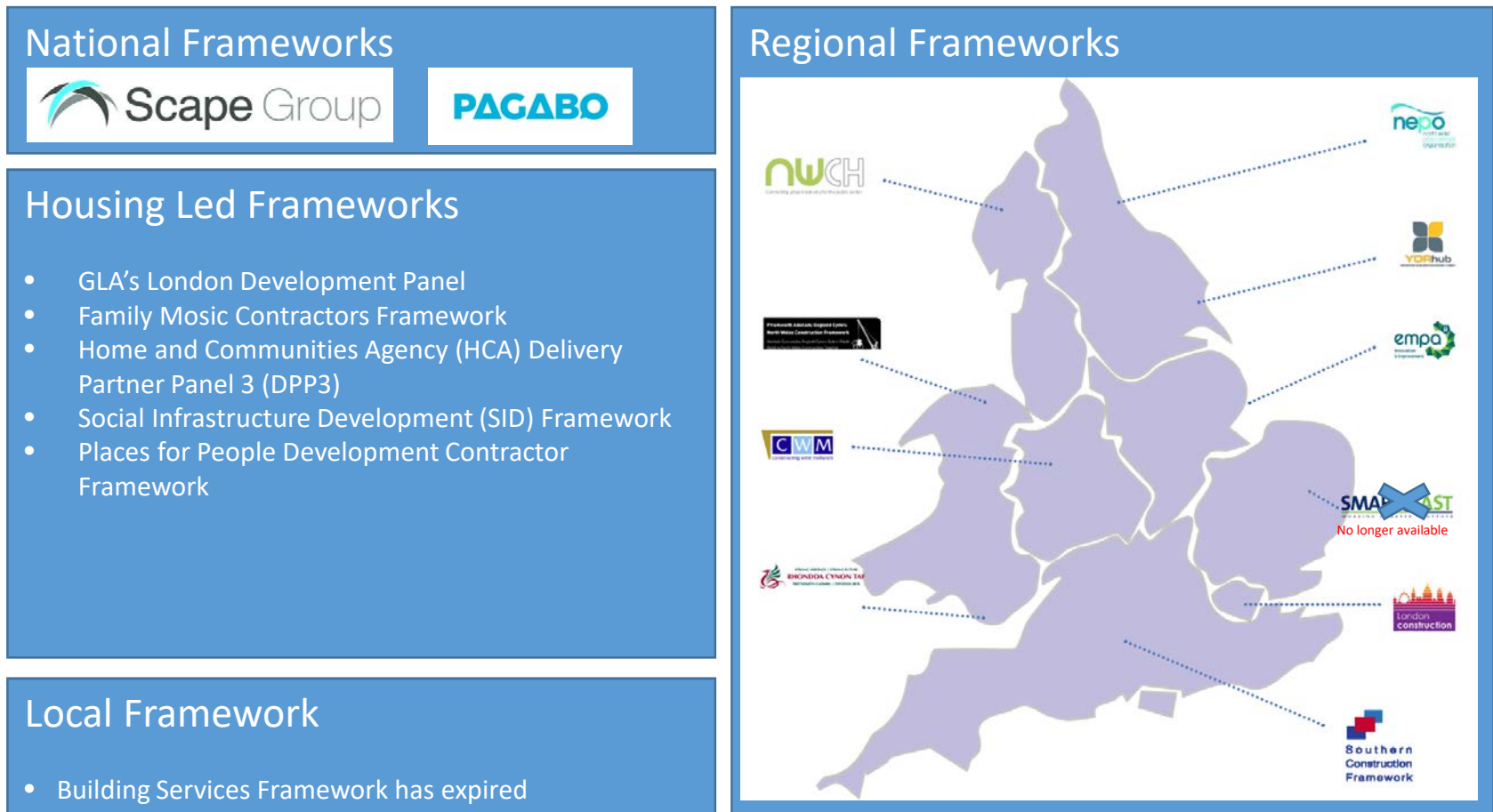
Given the continuing rise in construction activity and the extensive evidence of price inflation, these conditions limit the ability of clients to obtain fixed-price tenders on a single stage basis with contractors seeking to reduce risks and are therefore being selective with regard to which projects they bid. However, this is more viable via two stage tender process.

For this project, we would **recommend** that a fixed price approach is adopted. This will provide the Council with a higher degree of cost certainty. For a two stage procurement route, a fixed price will be agreed on completion of the second stage tender once sub-contractor prices have been received.

Contractor Frameworks

Contractor Frameworks.

There are a number of local, national and regional contractor frameworks, shown on the below graphic.



Contractor Frameworks

Although, in theory, it is possible for the Council to access any of these frameworks, it is common practice for them to be chosen on location as the framework for that region will be most relevant with regard to the selection criteria and KPI's.

The main benefits of using a framework are:

- Avoids the need to OJEU the project, as the framework has been put in place using the OJEU procedures. This is becoming ever more desirable in a climate where contractors are more likely to challenge the decision where they have not been selected. This also reduces the overall programme and management costs.
- A contractor can be appointed much quicker. This is important where buildability will be key due to the complexity of the project, which is particularly relevant for the Princes Parade project.
- A framework can be selected that includes contractors with a track record of delivering similar projects.
- Frameworks include KPI's that the contractors are assessed against, which incentivises them to perform well. This is particularly important where a one off project is being delivered. KPI's also incentivise the contractor to use local labour and suppliers.

Whilst frameworks can be used for single stage procurement routes, they are best suited to a two stage design and build procurement route.

The more relevant frameworks for the Princes Parade project are identified in the following pages.

The following frameworks are development or residential led frameworks, and aren't really suitable for the Leisure Centre project. They could however be considered if the Council decided to develop the residential sites themselves.

- GLA's London Development Panel – for housing led developments.
- Family Mosaic Contractors Framework – for housing led developments.
- Home and Communities Agency (HCA) Delivery Partner Panel 3 (DPP3) – for housing led developments.
- Social Infrastructure Development (SID) Framework – predicated on the sale of land to enable housing development.
- Places for People Development Contractor Framework – aimed at housing and residential development.

Contractor Frameworks

Framework	Areas Covered	Companies on Framework	Levy to use framework	Comment
Scape £1.75bn throughput	National	Minor Works (Up to £2m) - Kier Major Works, England & Northern Ireland (£2m-£20m) - Willmott Dixon Major Works, UK (£10m-£50m) – Wates Principal Works (+£50m) - Lendlease	The Council doesn't pay a fee to access or use the framework, although a levy is recovered via the contractor as follows: Major Works - 0.5% of contract value Minor Works - 0.95% of contract value	<p>Well established national framework.</p> <p>Minor Works Framework expires 13 September 2019. Major Works and Principal Works expires April 2021.</p> <p>Based on the NEC contract, although amendments are possible.</p> <p>Based on the likely construction value for the Princes Parade project it is likely to be the Major Works, England & Northern Ireland lot, e.g. Willmott Dixon, that would be more relevant.</p> <p>Willmott Dixon have a presence in the south east region and have previously expressed an interest in the project. They also have a good leisure centre track record.</p> <p>The main criticism of the Scape framework is that there is only one contractor for each project value range, and therefore no competition at the first stage. This can be an advantage were time is of the essence and a contractor needs to be brought on board immediately. However, this isn't the case with Princes Parade, and a framework with an element of competition at the first stage would be beneficial.</p> <p>We do not therefore recommend the Scape Framework is used.</p>

Contractor Frameworks

Framework	Areas Covered	Companies on Framework	Levy to use framework	Comment
<p>Southern Construction Framework (SCF)</p> <p>£3.9bn throughput anticipated.</p>	<p>South West South East London</p>	<p>Lot 2 – South East</p> <p>BAM Galliford Try Kier Mace Midas Morgan Sindall Wates Willmott Dixon</p>	<p>0.15% levy of contract value. Paid through construction contract. SCF ‘not for profit’ organisation so fee less than other more commercial frameworks.</p> <p>The contractor will be paid a fee for pre-construction stage duties which is governed by a Pre-Construction Agreement.</p>	<p>Commenced 29 April 2015. Runs for 4 years.</p> <p>This replaces the previous arrangements covering the South East and London area (SEaL) and Construction Framework South Wet (CFSW).</p> <p>This Framework is set up in a similar way to the Scape Framework, albeit there is more than one contractor on the Framework.</p> <p>A mini-competition is used to select preferred contractor, and it can take a little as three weeks to select the contractor. It isn’t normally possible to have direct call off.</p> <p>Choice of JCT and NEC contracts.</p> <p>This is a good flexible framework with a lower levy than other frameworks, such as Scape, and would be suitable for the Princes Parade project as many of the contractors on the framework have a track record in leisure centres. BAM, Kier and Willmott Dixon in particular have a very relevant track record for projects like Princes Parade and are active in the south east.</p> <p>The main benefit over Scape is an element of competition to select the contractor and a lower levy.</p> <div style="border: 2px solid green; padding: 5px;"> <p>For this reason we would recommend that the Southern Construction Framework is used. This will however need to be reviewed if the project progresses once the new framework is in place, e.g. after 29 April 2019, to ensure that the newly appointed contractors are suitable and there is sufficient interest.</p> </div>

Contractor Frameworks

Framework	Areas Covered	Companies on Framework	Levy to use framework	Comment						
<p>Pagabo</p> <p>National Framework Agreement for Major Works.</p> <p>£5bn throughput expected.</p>	National	<p>Area 6 – London, South East, East of England</p> <p>Lot 1 - £5m-£15m Lot 2 - £15m-£50m</p> <p>ISG Laing O’Rourke Morgan Sindall Sir Robert McAlpine Vinci</p>	<p>No cost to sign up to Client Access Agreement.</p> <p>Levy based on construction value.</p> <table border="0"> <tr> <td>£5m-£15m</td> <td>0.9%</td> </tr> <tr> <td>£15m-£50m</td> <td>0.5%</td> </tr> <tr> <td>Over £50m</td> <td>0.3%</td> </tr> </table> <p>Will consider capping for high value works and repeat customers.</p>	£5m-£15m	0.9%	£15m-£50m	0.5%	Over £50m	0.3%	<p>Started 19 April 2016 and runs for 3+1 years.</p> <p>Direct award is possible to the lowest price contractor on the framework, which is Morgan Sindall, however the frameworks NEC3 contract Terms and Conditions must be used unamended, which isn’t always appropriate.</p> <p>Mini-competition provides greater flexibility on procurement routes, e.g. can use single stage or two stage, and can use other forms of contract such as JCT.</p> <p>Pagabo provide an electronic portal for the mini-competition process with a designated manager free of charge.</p> <p><i>This is a relatively new framework which is very flexible.</i></p> <p><i>It should be noted that whilst most of the contractors have some leisure centre experience, they don’t have as relevant a track record as the contractors on the Scape and SCF frameworks.</i></p> <p><i>Pagabo therefore isn’t recommended for this project.</i></p>
£5m-£15m	0.9%									
£15m-£50m	0.5%									
Over £50m	0.3%									
<p>Shepway District Council</p> <p>Building Services Framework (2014/5S 156-279612)</p>	Local Framework	<p>Lot 5 – Design & build services with a value of £1.5m-£4.5m.</p>	Unclear	<p>This framework expired November 2018 and is no longer available.</p>						

OJEU

The current OJEU threshold for construction works is £4,551,413 (as of 1 January 2018).

There are five possible OJEU routes that can be used to tender projects: Open; Restricted; Competitive Dialogue; Competitive Negotiation procedures; and Innovation Partnership.

For a project of this nature the most suitable route used to be the Restricted procedure and the tender process was run in parallel with the design development so that no time is lost on the overall programme. However, The Public Contracts Regulations 2015 have left ambiguity on this matter, inferring that all procurement documents must be accessible when the OJEU notice is posted.

By taking a cautious interpretation of the regulations in respect of the procurement documents, these would need to be available to contractors in their entirety at the Pre-Qualification Questionnaire stage. This would have a significant impact on the delivery date for the project. This would also diminish the benefits of using a more orthodox two stage approach when the contractor would be appointed under a Pre-Construction Services Agreement prior to the design and project requirements having being fully defined.

The Competitive Negotiation procedures are therefore being seen as an alternative, which enables the OJEU process to commence in parallel with the design development. It is however important that the approach to be adopted and shortlisting / down-section of contractors is clearly set out, along with any negotiation points.

The Open procedure invites an unlimited number of interested parties to tender against defined parameters. This is not normally recommended for construction projects as the number of tenders received can inhibit a timely appointment of the contractor. In addition to this, there will also be certain contractors who will not bid under this procedure as the likelihood of appointment is diminished due to the number of bidders.

The Competitive Dialogue procedure is a much more involved process and is best suited to complex development projects where the bidders will be required to develop a design as part of their proposals, and the design is refined, along with the financial proposals, through dialogue with the client.

If the OJEU procedure is adopted, a Project Information Memorandum (PIM) which provides the project background, and a Pre-Qualification Questionnaire (PQQ) would be issued upon request. The contractors would be required to provide information in response to the PQQ including the following:

- Company information – size, location.
- Financial information – audited accounts, ability to provide a performance bond, Dunn and Bradstreet credit rating.
- Insurance details – including Professional Indemnity.
- Project team – experience of the team, track record, proposed sub-contractors.
- Experience – track record, working with public bodies, experience of procurement route.
- Health and Safety – health and safety policy, track record, ability to act as the Principal Contractor.
- Regulatory issues – Regulation 14 of the Public Works Contract Act 1991.

If an OJEU procedure is used we would recommend that a maximum of five contractors be shortlisted to tender from the expressions of interest received in response to the OJEU notice (this is also the minimum allowed). In our experience, contractors are not prepared to commit significant resource and cost to prepare a tender if more than five contractors have been asked to tender for the works. This approach is in line with OJEU procurement rules.

OJEU

The tender procedure would be in accordance with the Council's procurement regulations and will follow the Code of Procedure for Selective Tendering for Design and Build published by the NJCC.

Shortlisted tenderers would be invited to mid-tender meetings at which they can seek clarification of the client's requirements and discuss the priorities and critical objectives. Responses to contractor's questions would be circulated to each of the contractors tendering. This would also give the Council an opportunity to meet the individuals who will be responsible for delivering the construction of the project.

A contractor would be appointed on the basis of them scoring the highest overall tender score based on both quality and cost criteria, and the other tenderers would be notified accordingly.

The whole process can take four months to finally appoint a contractor. This approach is not therefore suited to a two-stage procurement route as the benefits of involving a contractor early are not realised, although it could technically still be used.

Using the OJEU procedure also carries a higher risk of challenge from unsuccessful contractors compared to frameworks. This is in part due to the costs associated with responding to an OJEU tender. Additionally, a contractor is less likely to jeopardise their standing in a framework.

For these reasons we would **not recommend** that the OJEU procedure is used to procure the contractor for this project.

Recommendation

To summarise we consider the following to be the most appropriate procurement approach for Princes Parade:

Approach	Reasons
Single contractor is appointed for the Leisure Centre, remedial works and infrastructure.	<ul style="list-style-type: none"> • Single contractor responsible for coordination of all of the works. • The risk associated with delay sits with one contractor. • Simplified tender process and reduced contract administration. • Programme benefits by running the Leisure Centre, infrastructure and remediation works in parallel.
A two stage develop and construct procurement route to be adopted.	<ul style="list-style-type: none"> • Programme. • Early contractor involvement. • More attractive in the current tender market. • Collaboration with contractor to obtain high quality product. • Risk transfer where appropriate.
Design developed to Stage 4a (previously Stage E) in conjunction with the contractor and for the completion of the second stage tender.	<ul style="list-style-type: none"> • Ensure a high quality product is obtained. • To enable a fixed price to be obtained for the works on completion of the second stage tender.
A fixed lump sum price is obtained for the works at the second stage tender.	<ul style="list-style-type: none"> • Obtain cost certainty before starting on site. • Risk transfer where appropriate.
Key designers, e.g. architect, mechanical/electrical engineer and civil/structural engineer would be appointed by the Council to complete the design to Stage 4a, and then novated to the contractor to complete the design.	<ul style="list-style-type: none"> • Obtain a high quality product. • Continuity of design. • Programme – to avoid downtime whilst a new team get up to speed. • Transfer design risk to the contractor.
<p>The contractor is procured through the Southern Construction Framework, although this needs to be soft market tested to ensure there is sufficient interest from the contractors on the framework.</p> <p>This will need to be reviewed if the project progresses after the new framework is in place, e.g. after 29 April 2019, but it is likely that the contractors on the new framework will be similar to those currently on the framework and therefore have the right experience for the Princes Parade.</p>	<ul style="list-style-type: none"> • OJEU compliant. • Avoids full OJEU process and associated programme impact. • Mini-competition to select contractor. • National contractor with very relevant experience on the framework. • Bring on board a contractor at an early stage to work with the Council and the Design Team, and advise on, programme, buildability, cost, etc.

3. Consultant Procurement

Introduction

Overview

This section provides an overview of the options available to the Council to appoint a consultant team for Princes Parade.

The following consultants are envisaged for this project:

Core Consultant Team

- Project manager / Employer's Agent / Contract Administrator
- Cost consultant (quantity surveyor)
- Principal designer (under the CDM Regulations)
- Architect
- Civil and structural engineer – including ground remediation
- Mechanical and electrical services engineer
- Landscape architect

Other Consultants

- Planning consultant – to help discharge conditions
- Ecology
- Landscape architect
- Fire engineer
- Acoustics engineer
- BREEAM consultant – if BREEAM requirement
- Business planning
- Highways engineer
- Pool consultant
- Archaeological and heritage consultant – and investigations
- Additional surveys – ground investigations, GPR, etc.

Consultants Used to Date

The Council has used the following consultants on the project to date to help develop the design and submit the planning application.

- | | |
|--|--------------------------|
| • Planning and Masterplanning | Tibbalds |
| • Leisure Centre Architecture | GT3 Architects |
| • Leisure Centre Landscape Architecture | Mark Hanton Studios |
| • Landscape Architecture | Chris Blandford |
| • Ecology | Lloyd Bore |
| • Landscape and Visual Impact Assessment | Lloyd Bore |
| • Heritage | Martin McKay |
| • Sequential Testing and Impact Assessment | Q + A Planning |
| • Lighting | Elementa |
| • Transportation | MLM |
| • Energy and Sustainability | Building Services Design |
| • EIA Coordination | Peter Randall Associates |
| • Topography | JC White |
| • Flooding and Drainage | Herrington Consulting |
| • Utilities | Peter Brett Associates |
| • Contamination and Ground Conditions | Idom Merebrook |
| • Cost Consultant | Betteridge Milsom |
| • Marketing and Disposal Advice | BNP Paribas Real Estate |
| • Viability Assessment | Savills |

Introduction

Key Considerations

Each approach, whether it is through a full OJEU process or use of a framework, has its advantages and disadvantages, and there is not a perfect solution. Ultimately the final choice will come down to a number of considerations and selecting the 'best fit' for the Council.

The Council should therefore consider what it is trying to achieve and what the priorities are. The following questions will assist this process:

- Programme – How quickly do you want/need to get the consultant team on board? Frameworks are clearly the quickest route, although some are quicker than others.
 - Price – Is lowest price the key driver? Frameworks attract a mark up / pass through cost, some more than others. However, this is normally offset by the selection of an experienced team and the time savings associated with a framework.
 - Known team – How important is it that the team is known to the Council? It will take time for a new team to get up to speed, to establish relationships and build confidence. Working relationships will also need to be established with a new team.
 - Flexibility – How important is it to be able pick and choose the different consultants? Some approaches will restrict the ability to select preferred consultants, particularly where they are procured as a team or through a particular framework.
 - Track record – How important is the experience of the team? Leisure centres, particularly those with a pool, are complex projects. It is therefore essential that a team with a track record of this type of project is appointed. This should be the track record of the individuals not necessarily the company.
- Previous experience of working together – Is it important that the team have worked together before? A cohesive team is more likely to be obtained if they have worked together before.
 - Terms of appointment – Are bespoke appointments required? Many frameworks have existing appointment terms, but most can be varied to a degree.
 - Procurement – What capability or resource is there in the Council? OJEU is very intensive, whereas frameworks are relatively quick, cutting down procurement costs. There is also a higher risk of challenge with OJEU.
 - Framework – Is the Council prepared to use a framework? There are several frameworks that the Council can make use of. Some weren't originally set up for this type of project, and aren't always the most obvious choice. However, they can sometimes be a good way to select the preferred team.

Appointment Approaches

In the table below, we have summarised the most appropriate approaches to appointing a consultant team.

Type of Appointment	Pros	Cons	OJEU	Framework
Separate appointments	<ul style="list-style-type: none"> Total flexibility and ability to appoint preferred team members. 	<ul style="list-style-type: none"> More time consuming to tender, put legal agreements in place and manage. No guarantee the individual consultants will work well as a team. No single point of contact/responsibility for consultant team. 	<ul style="list-style-type: none"> Some consultants, such as the architect, are likely to be above the OJEU threshold of £164,176. 	<ul style="list-style-type: none"> Whilst there are a number of frameworks the Council could potentially use, not all of them allow separate consultant appointments.
Single appointment through lead consultant	<ul style="list-style-type: none"> Least time consuming option. Single point of responsibility. More likely to get a cohesive team. Lead consultant has contractual control over other consultants and can exert more control over the performance of the team. 	<ul style="list-style-type: none"> Not as much opportunity to pick and choose team members, although some frameworks do have this option. Can be difficult to change individual consultants if they don't perform. Project manager and cost consultant is not completely independent of the Design Team and other consultants. 	<ul style="list-style-type: none"> Will be above OJEU threshold. Opens the opportunity to wider competition than a framework, although this is much more time consuming. Typically an OJEU process can take 3-4 months. 	<ul style="list-style-type: none"> There are a number of frameworks the Council could potentially use. These are explored further on the following pages.
Hybrid - separate appointment for PM/QS and Design Team	<ul style="list-style-type: none"> Able to select preferred PM and QS, and separate design team. PM and QS is independent of the design team. PM can be brought on board quickly to put delivery strategy in place and run the design team tender. Single point of responsibility for the design team. 	<ul style="list-style-type: none"> More time consuming than a single appointment. Ideally the PM appointment would be made first, which lengthens the overall timescale to appoint the entire consultant team. Design team still comes as a package. No guarantee PM and design team will work well together, but this is improved if the PM is involved in the selection of the design team. 	<ul style="list-style-type: none"> Likely to be above the OJEU threshold. Combined design team appointment will definitely be over threshold. More time consuming than frameworks (where available). 	<ul style="list-style-type: none"> There are a number of frameworks the Council could potentially use. These are explored further on the following pages.
Appointment through a contractor Note a PM and QS should still be directly appointed by the Council.	<ul style="list-style-type: none"> The contractor will help ensure that the design is coordinated and input on buildability The contractor will manage the design team. Some flexibility to select the preferred design team. 	<ul style="list-style-type: none"> The client can feel removed from the design process, and unable to fully influence the design team. Contractor will often add a mark up to the design fees. Difficult to separate contractually if changes are required to the contractor or the design team. 	<ul style="list-style-type: none"> Only really suited to a true design and building procurement route, where the design is to be fully developed by the contractor. 	<ul style="list-style-type: none"> The option for the contractor to appoint and manage the design team is available on most contractor frameworks.

Consultant Frameworks

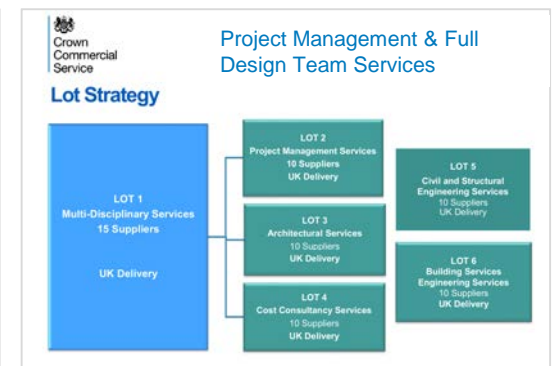
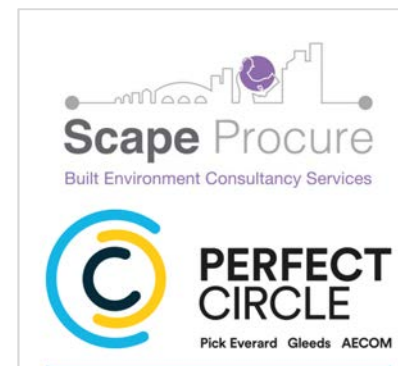
Due to the scale of the project, some of the key disciplines in the professional team will probably need to be procured using an OJEU compliant process.

The default option would be to use either an OJEU Restricted Procedure or an OJEU Competitive Negotiation route. However, the Council should have access to a number of frameworks that comply with OJEU and may be more suited to the Princes Parade project considering the complexity of the project and the tight timescales required for delivery.

We have not provided details on the default OJEU routes as we anticipate these will be well understood by the Council. However, we have summarised the most appropriate OJEU compliant consultant frameworks for this project on the following pages.

The frameworks listed are being used by the public sector, but final checks on the ability for the Council to access the frameworks should be made by the Council's procurement and legal teams.

When selecting a framework it will be important to ensure that the people on the framework have a track record of delivering similar projects to Princes Parade, e.g. leisure centres, preferably in the same project.



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Contract Information

Construction Consultancy Services

Reference: SBS/13/DM/PZR/8369/1-95

NHS Shared Business Services

Consultant Frameworks

Framework	Areas Covered	Companies on Framework	Services Covered (of relevance to this project)	Comment
<p>Scape</p> <p>Built Environment Consultancy Services Framework</p> <p>4 year framework, expires 4 October 2020</p> <p>www.scapegroup.co.uk</p>	National	Perfect Circle (joint venture between Pick Everard, Gleeds and AECOM).	<p>Project Management</p> <p>Quantity Surveying</p> <p>Building Surveying</p> <p>Commercial Surveying</p> <p>Architecture and Design Services</p> <p>Civil and Structural Engineering</p> <p>Electrical and Mechanical Engineering</p> <p>Health and Safety</p> <p>Highways Consultancy and Engineering Services</p> <p>Strategic Asset Management</p>	<p>Perfect Circle are the sole framework partner, supported by an extensive supply chain.</p> <p>It is possible to appoint specific companies directly through the Framework, which would enable a team to be appointed quickly. However, one of the Perfect Circle Partners, e.g. Pick Everard, Gleeds or AECOM would need to be the lead consultant, and their sub-consultants would have to be on their supply chain.</p> <p>Alternatively the lead consultant from Perfect Circle can administer a mini-tender for each discipline, although they will charge a fee for this and it will be more time consuming.</p> <p>The framework covers the appointment of the design team, e.g. architect, engineer, etc. However, other members of the consultant team can also be appointed through Perfect Circle, including a project manager who is not one of the joint venture partners where this is a client requirement and Perfect Circle are prepared to do this.</p> <p>The framework contains pre-agreed rates for different type and size of projects. The framework is quick and simple to use and to appoint a team, and can be used where time is of the essence and/or there is a continuity benefit of appointing an incumbent team.</p> <p>Whilst the client doesn't pay a fee to access or use the Scape Framework, there is a levy of 5%, which is paid by Perfect Circle and is included in their rates. There are other fees that apply where Perfect Circle appoint sub-consultants or run a mini tender competition for each discipline.</p>

Consultant Frameworks

Framework	Areas Covered	Companies on Framework	Services Covered (of relevance to this project)	Comment
<p>NHS Construction Consultancy Services Framework (Ref: SBS/17/NH/PZR/9256)</p> <p>4 year framework, expires 31 March 2022</p> <p>www.sbs.nhs.uk/ica-construction-consultancy-services</p>	<p>The framework is broken down geographically into Lots.</p>	<p>A mix of SME and national providers.</p> <p>There a lots of consultants on the framework, which is narrowed down depending on the Lot and Services.</p>	<p>Architectural Service (Lot 1) Project Management (Lot 2) Civil and Structural Engineering (Lot 3) Quantity Surveyor (Lot 4) MEP Services (Lot 5) Principal Designer (Lot 6) Ancillary Services, inc. Multidisciplinary Team (Lot 12)</p>	<p>The framework contains pre-agreed rates for different types and size of projects.</p> <p>It is possible to select direct from the list of suppliers, but only the lowest priced supplier for each Offer and only for the services covered by that Offer, otherwise a mini-competition needs to be run.</p> <p>Where a mini-competition is run it is possible to include other services, but not where a company is appointed direct without competition. It will however be more time consuming to run a mini-competition and there isn't flexibility to pick and choose the individual consultant team members.</p> <p>Whilst there is no fee to access or use the framework, a 2% levy is charged to use this framework, which is paid by the consultant.</p> <p>If the Council wished to proceed along the route of appointing a Project Manager who was also responsible for full design team services, it is also likely that they would seek to add a mark up as well.</p> <p>The scope of services are fairly high level and need to be further defined for each project.</p>

Consultant Frameworks

Framework	Areas Covered	Companies on Framework	Services Covered (of relevance to this project)	Comment
<p>Bloom (delivery partner for NEPRO)</p> <p>Construction, Design and Engineering Framework</p> <p>Expiry date not clear</p> <p>www.bloom.services</p>	<p>National framework</p>	<p>Complete flexibility about who is approached to tender, although suppliers would have to sign up to Bloom T&Cs.</p>	<p>The services are bespoke to each project and very flexibility.</p>	<p>Direct call off or mini-competition. Process is managed by Bloom.</p> <p>No pre-agreed fee rates with supply chain, and fee arrangements are bespoke to each project.</p> <p>It is possible to appoint specific companies directly through the Framework, which enable a totally bespoke team to be put together. Alternatively a preferred shortlist can be selected for a mini-competition. This does of course assume that the Council’s preferred team or shortlist is an approved supplier or is prepared to become one and meet the minimum requirements.</p> <p>Flexible, enabling single appointment, separate appointment or a mix. The scope of services can be defined for each specific project.</p> <p>Bloom enters into contracts with the buyer (the Council in this case) and the supplier(s). Payments are also made through Bloom. The contractual arrangements are therefore more complex than other frameworks where the appointment is direct between the supplier and the employer, and any contract disputes would need to be managed through Blooms. This can make the procurement and management of the appointments a little protracted.</p> <p>Bloom charge a 5% uplift on all fees that pass through the framework.</p>

Consultant Frameworks

Framework	Areas Covered	Companies on Framework	Services Covered (of relevance to this project)	Comment
<p>PAGABO</p> <p>National Framework for Professional Services in Construction and Premises</p> <p>4 year framework, expires 12 April 2020</p> <p>www.pagabo.co.uk</p>	National framework	<p>There a lots of consultants on the framework, which is narrowed down depending on the Lot and Services.</p> <p>Faithful+Gould are the sole supplier for Lot 1, which can be used to provide the full team.</p>	<p>Lot 1 - Complete Construction (covering all Lots 2-15)</p> <p>Lot 2 - Civils, Structural and Highways Engineering</p> <p>Lot 3 - Building Services Engineering</p> <p>Lot 5 - QS, Project and Programme Management and Lead Consultant</p> <p>Lot 7 - Architectural Design</p> <p>Lot 8 - Landscape Architecture</p>	<p>Lot 1 can be used to procure all services with no need for further competition. Faithful + Gould (F+G) are the sole supplier for this Lot. This is very similar to the way the Scape Framework operates.</p> <p>Whilst this provides a single point of responsibility, e.g. through F+G, it would be possible to assemble a bespoke team through dialogue with F+G and to benchmark the fees against other projects and frameworks to demonstrate good value.</p> <p>Another alternative would be to appoint F+G as the lead consultant, including project management and cost consultancy, and get them to mini-tender the other consultants. There will however be a fee associated with this, it will be more time consuming, and many not ultimately result in the best consultants being selected if the quality/cost criteria aren't appropriate.</p> <p>The other lots include several consultants and are normally based on a mini-competition.</p> <p>The fees and scopes of service would be bespoke to the project as the framework isn't specific on either.</p> <p>Lot 1 is a quick and simple route to appoint a team, with flexibility to select preferred consultants in dialogue with F+G. This can be helpful where time is of the essence and/or there is a continuity benefit of appointing a known consultant team or an incumbent team.</p> <p>Whilst the client doesn't pay a fee to access or use the PAGABO Framework, there a levy of 4% applies which is paid by the consultant and is included in their rates.</p>

Consultant Frameworks

Framework	Areas Covered	Companies on Framework	Services Covered (of relevance to this project)	Comment
<p>Crown Commercial Service (CCS)</p> <p>RM3741 Project Management and Full Design Team Services</p> <p>2 year framework (which has been extended by two years).</p> <p>Expires 2 May 2021.</p> <p>https://ccs-agreements.cabinetoffice.gov.uk/contracts/rm3741</p>	National framework	There a lots of consultants on the framework, which is narrowed down depending on the Lot and Services.	<p>Lot 1 - Multi-Disciplinary Services</p> <p>Lot 2 - Project Management</p> <p>Lot 3 - Architectural</p> <p>Lot 4 - Cost Management</p> <p>Lot 5 - Civil and Structural Engineering</p> <p>Lot 6 - Building Services Engineering</p>	<p>The predecessor to this framework was seen as the 'go to' framework for local authorities at a time when there were few frameworks available. However, problems with the procurement process for the new framework meant that it was unavailable for a number of years. This, together with the emergence of other suitable frameworks, means there is now more choice for local authorities.</p> <p>The framework is being heavily promoted by CCS and it is forecast that between £1.6bn and £2.88bn will be procured through this framework, which shows the scale of this.</p> <p>Whilst it is in theory possible to procure consultants directly, a mini-competition is usually run to select the consultants. This can therefore be more time consuming than single source frameworks. There is also no opportunity to influence the make up of each team.</p> <p>A levy of 1% is recovered from the consultant fees, which is one of the lowest of the available frameworks.</p>

Consultant Frameworks

Framework	Areas Covered	Companies on Framework	Services Covered (of relevance to this project)	Comment
Shepway District Council Construction Consultancy Service Framework (2014/S 156-281048)	Local framework	There a lots of consultants on the framework, which is narrowed down depending on the Lot.	Lot 1 – Architects Lot 2 – EA/PMs Lot 3 – CDM Coordinators Lot 4 – M&E Engineers Lot 5 – Structural & Civil Engineers Lot 6 – Quantity Surveys Lot 7 – Clerk of Works Lot 8 – Environmental Services Lot 9 – Multi-disciplinary consultants Lot 10 – Building Surveyors Lot 11 – Valuation Surveyors Lot 12 – Infrastructure Consultants	This framework expired November 2018 and is no longer available.

Consultant Appointment Summary

Consultant procurement can often be price driven and a ‘race to the bottom line’. This is however a very risky approach for a project as complicated as Princes Parade, which will need a consultant team that knows what it is doing, has experience of similar projects and allocates sufficient resource of the right level to the project.

Selection of the right team is therefore critical to the success of the Princes Parade project, and the procurement route for the consultant team should be selected with the end result in mind.

OJEU is time consuming and runs the risk of challenge if not run correctly. Additionally, whilst there is still plenty of work for consultants, they continue to be selective about what they bid for and will often be put off bidding for OJEU opportunities when they can secure work much more easily through frameworks.

Whilst there will be a levy to pay to use a frameworks, either directly or indirectly, this often a price worth paying to simplify and speed up the procurement process, but also to select the right team.

There is often reluctance to use single source frameworks, such as PAGABO and Scape, as there is no competition. However, these were both procured in a very competitive market and best value can be demonstrated through the selection of a team with a relevant track record and by benchmarking the fees against other projects. This is why they are used by so many local authorities, and would be ideally suited to Princes Parade.

The PAGABO levy (recovered through the consultant) is slightly lower than Scape and therefore has a slight edge over Scape on this element, but otherwise they are very similar frameworks.

If an element of competition is still required then the new CCS Framework is probably the most suitable framework, and has a lower levy at 1%, but this doesn’t offer the same opportunity to hand select the team as Scape and PAGABO, and in some cases it will be worth paying a slight premium for this. The complexity of Princes Parade may well justify this.

In order to make a final decision the Council therefore needs to consider the questions posed at the beginning of this section.

- Programme – How quickly do you want/need to get the consultant team on board? The costs to repair Princes Parade are increasing by the day and time is of the essence. This would suggest a framework over OJEU, and possibly a single source framework, such as PAGABO or Scape.
- Price – Is lowest price the key driver? Princes Parade is too complicated and risky to have price as the driver. The selection of the right team has to be the priority.
- Known team – How important is it that the team is known to the Council? It will take time for a new team to get up to speed, to develop new relationships and to build confidence. The PAGABO or Scape frameworks would allow the Council to work with the lead consultant to select a team they have worked with before and have confidence in.
- Flexibility – How important is it to be able pick and choose the different consultants? The complexity of Princes Parade requires a specialist team with a track record in similar projects and it is important to select the right team.
- Track record – How important is the experience of the team? This is critical for Princes Parade, and the selection of the right team, and particularly the individuals, shouldn’t be left to chance.
- Previous experience of working together – Is it important that the team have worked together before? Some of the most successful projects have a cohesive team that is used to working with each other, and this should be a key criteria. This would suggest a single appointment through a lead consultant.
- Terms of appointment – Are bespoke appointments required? This shouldn’t be an issue as most frameworks terms can be varied.
- Procurement costs – Is there a drive to keep these down? OJEU is very intensive, whereas frameworks are relatively quick, cutting down procurement costs.

Consultant Appointment Summary

Based on the above we would suggest the following approach is adopted:

- A single source framework, such as the PAGABO or Scape framework, be considered for the core team appointment, e.g. project manager, cost consultant, architect, M&E engineer, civil/structural engineer and principal designer, with the final selection being down to which framework provides the Council the best route to their preferred team.
- Deal with smaller 'non-core team' appointments as a variation to the framework appointment or as a direct appointment by the Council. Competitive quotes can be obtained in either option to demonstrate best value. There may also be instances where the Council's Construction Consultancy Framework could be used.

4. Programme

Programme

Planning Phasing Plans

The phasing plans on the right were included in the planning application.

This assumes that the site remediation is completed prior to work commencing on the Leisure Centre and infrastructure. This is a big commitment for the Council to make when it doesn't have cost certainty on the construction contract and residential sale values.

We believe there are a number of programme opportunities, which will help de-risk the programme for the Council and still meet or improve on the current programme assumptions.

This is explored further on the following pages.

Phase 1

- Site remediation works

Phase 2

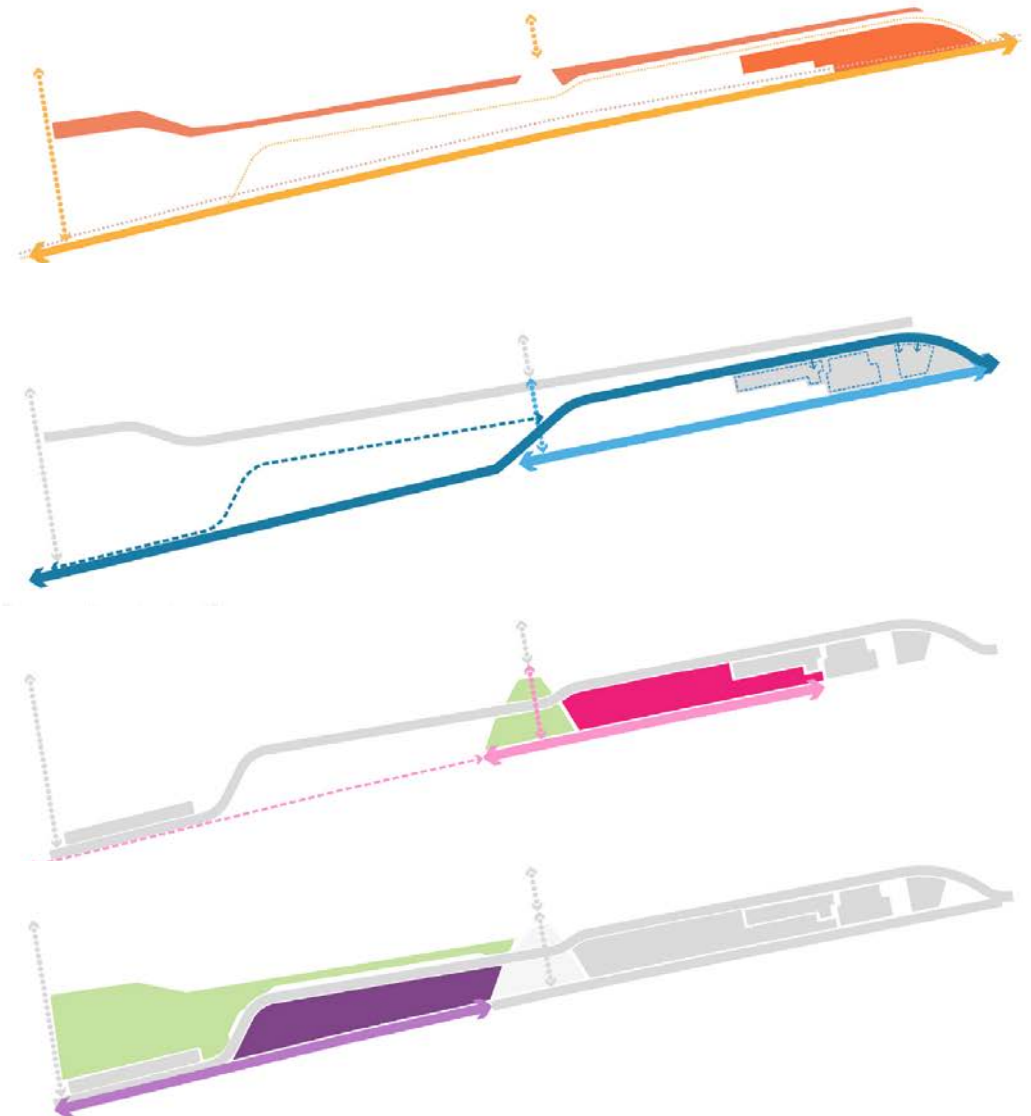
- Construction of leisure centre
- Realignment of Princes Parade and construction of western car park.
- Relocation of existing rising main along realigned Princes Parade.
- Provision of new promenade
- Construction of new linear park (including installation of planting along the embankment to the northern boundary, adjacent to the RMC)

Phase 3

- Construction of character area east (residential) and central open space.

Phase 4

- Construction of character area west (residential and commercial) and western open space.



Programme

Opportunity 1 - Remediation

The Ground Investigations carried out identify the following requirements for the site:

- Foundation solutions such as ground improvement (vibro stone / concrete columns) or piled solutions.
- Suspended floor slabs.
- Made ground removals should be undertaken below and proposed private garden areas to a depth of 600mm below finished levels, and replaced by validated clean cover. This can be reduced to 450mm in areas of soft landscaping.
- Basic gas protection measures, although further gas monitoring might negate the need for this.
- Waste material to be taken off site.
- Ground improvement works beneath access roads and infrastructure corridors to avoid unacceptable settlement.

Having discussed this with Idom Merebrook, we consider this work is best carried out as part of the construction work, not as a specific 'remediation' works.

One of the reasons it has been suggested that the site is remediated is to provide a clean site to the developer and maximise the land sale value. However, with the possible exception of the ground improvement works, the works required are more related to how the buildings are constructed, rather than requiring the site to be remediated before works are carried out.

We understand the options for the ground improvement works are to surcharge the site (basically loading material onto the site to compact the ground) or use mechanical machinery to compact the ground, although the latter could still be carried out as part of the building works.

Surcharging the site is less expensive, but takes considerably longer. Initial advice suggests that this could be 11 months, compared to 3 months for mechanical compaction.

If more extensive ground investigations are carried out to more precisely define the ground conditions across the whole site, including the development sites, this will allow a clear remediation strategy to be defined and to better understand the cost implications of this. If this is well defined, then the developers are more able to take on this risk, and cost it accordingly. Collateral warranties could also be provided to the developers to help transfer this risk.

By carrying out the remedial works as part of the construction works, it avoids having to carry this work out ahead of having a firm price for the Leisure Centre construction contract, and therefore helps de-risk the project for the Council.

The current phasing plan also shows remediation starting only 4-5 months after planning has been received. This isn't sufficient time to complete the additional ground investigations, agree the detailed remediation strategy, carry out reptile trapping and discharge the pre-commencement planning conditions. The alternative approach to deal with the remediation, e.g. as part of the building works, would allow more time for this.

Programme

Opportunity 2 – Alignment of Contract Approvals by Cabinet

The alternative remediation strategy outlined will enable Cabinet approval of the Construction Contract, Operator Contractor (for the new Leisure Centre) and Heads of Terms for the development sites to be aligned and presented at the same time. This will significantly de-risk the project for the Council.

Opportunity 3 – Parallel Working

The phasing plans show the Leisure Centre and the infrastructure works (road and utilities) being carried out at the same time, which is a sensible approach. The programme for this can be further de-risked by having it undertaken through one main contractor, as proposed earlier in the report.

Opportunity 3 – Preparation and Servicing the Residential Plots

Assuming the ‘Develop and Construct’ procurement approach, appointment of the core consultant team through a framework and based on similar types of project, it should be possible to be ready to start construction of the Leisure Centre within 12-13 months of receiving the planning consent.

This would allow time for the Building Contractor appointed by the Council to complete the road and utility diversions and provide new utility connections to the development sites in sufficient time for when the developer is ready to start construction on site.

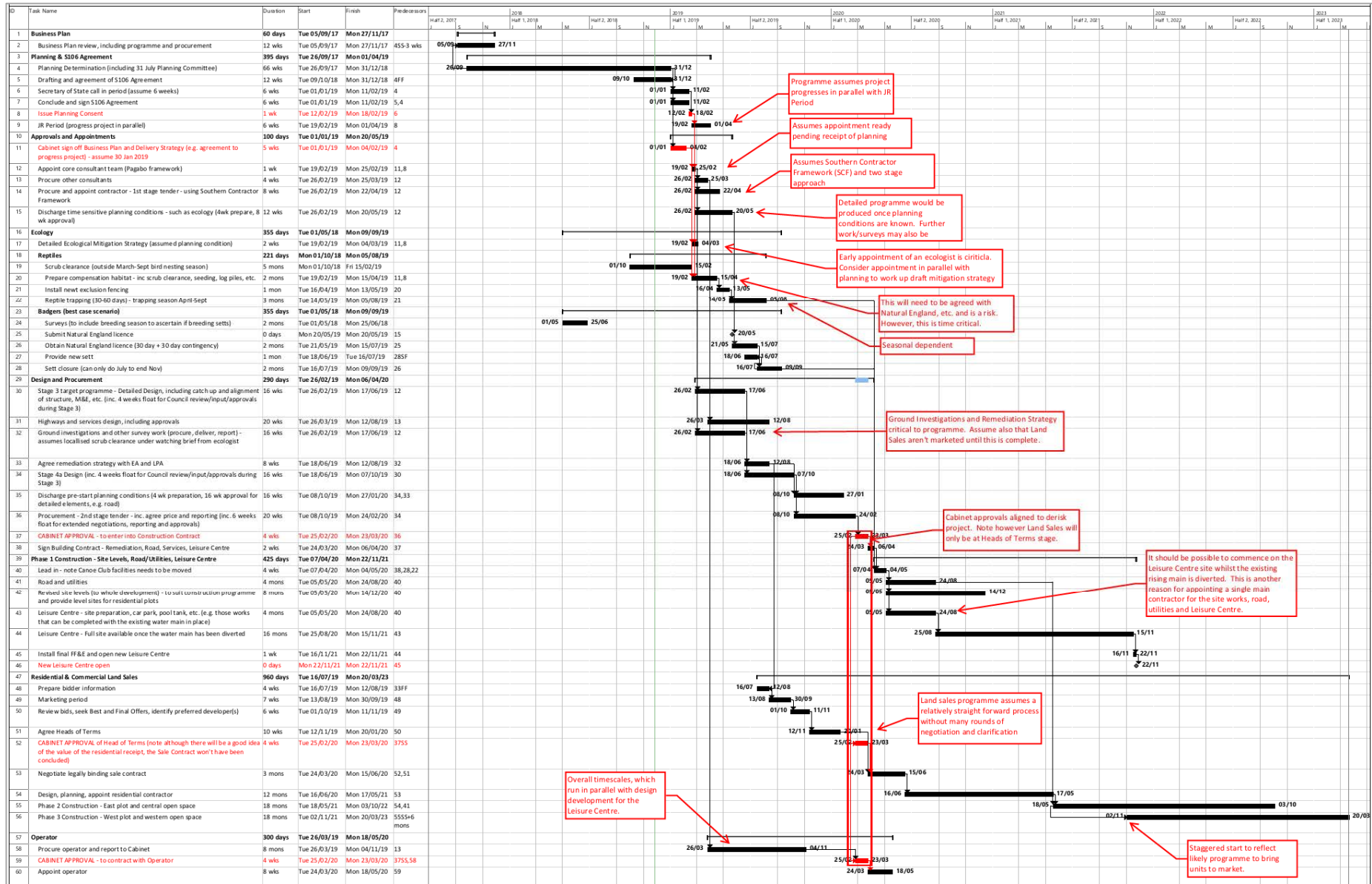
Programme Workshop

A programme workshop was held on 10 November 2017 to review the programme and phasing, and to validate the programme opportunities. This was attended by the following people:

- Dave Shore – Folkestone and Hythe District Council
- Susan Priest – Folkestone and Hythe District Council
- Richard Piper – Folkestone and Hythe District Council
- Andy Jerrett – Folkestone and Hythe District Council
- Simon Molden – The Sports Consultancy
- Stephen Jepson – Hadron Consulting
- Duncan Thomas – BNP Paribas
- Paul Gannaway – Betteridge & Milson
- Neil Dellow – Merebrook

The programme and phasing plans on the following pages reflect these discussions and the view from the Programme Workshop that these opportunities could be realised.

Programme



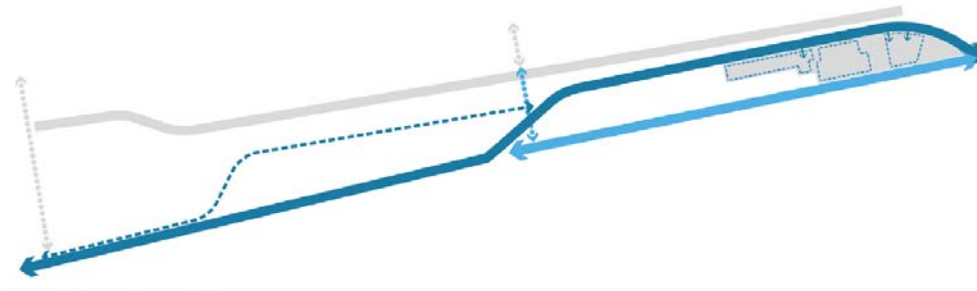
Programme

Alternative Phasing

The below diagrams show the alternative phasing outlined in the programme on the previous page.

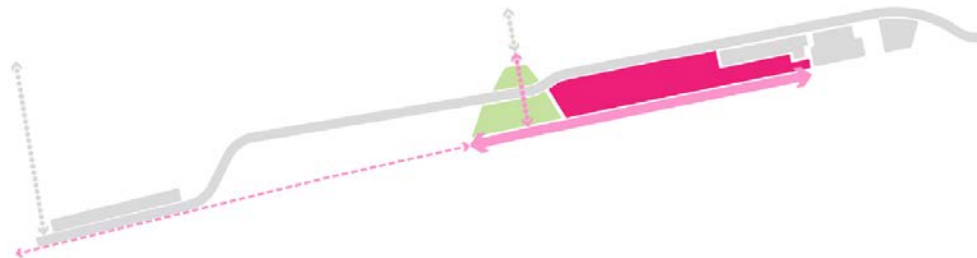
Phase 1

- Site 'remediation' – e.g. site preparation and levelling works.
- Construction of leisure centre.
- Realignment of Princes Parade and construction of western car park.
- Relocation of existing rising main along realigned Princes Parade.
- Provide new utilities along Princes Parade, with connections to development sites.
- Provision of new promenade.
- Construction of new linear park (including planning along embankment).



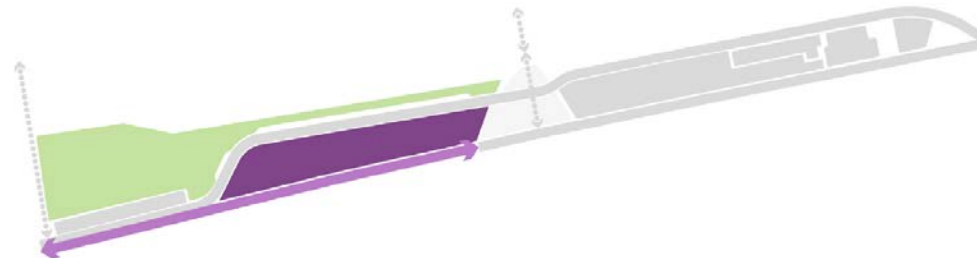
Phase 2

- Construction of character area east (residential) and central open space.



Phase 3

- Construction of character area west (residential and commercial) and western open space.



Programme Benefit

Phase 1

- 'Remediation' forms part of construction works for Leisure Centre and Infrastructure works.
- This avoids starting remediation work ahead of confirmation of the Building Contract price.
- Leisure Centre still finishes roughly in line with the previous phasing assumptions.
- Road and utilities are completed prior to construction of the development plots.

Phase 2

- This phase commences and finishes a few months ahead of the previous phasing plan.

Phase 3

- This starts earlier than the previous phasing plan. It also assumes an overlap with Phase 2. This will however depend on the developers view of this.

5. Summary

Summary

This report proposes the following approach. The detailed reasons for this are contained in the main body of the report.

Contractor Procurement

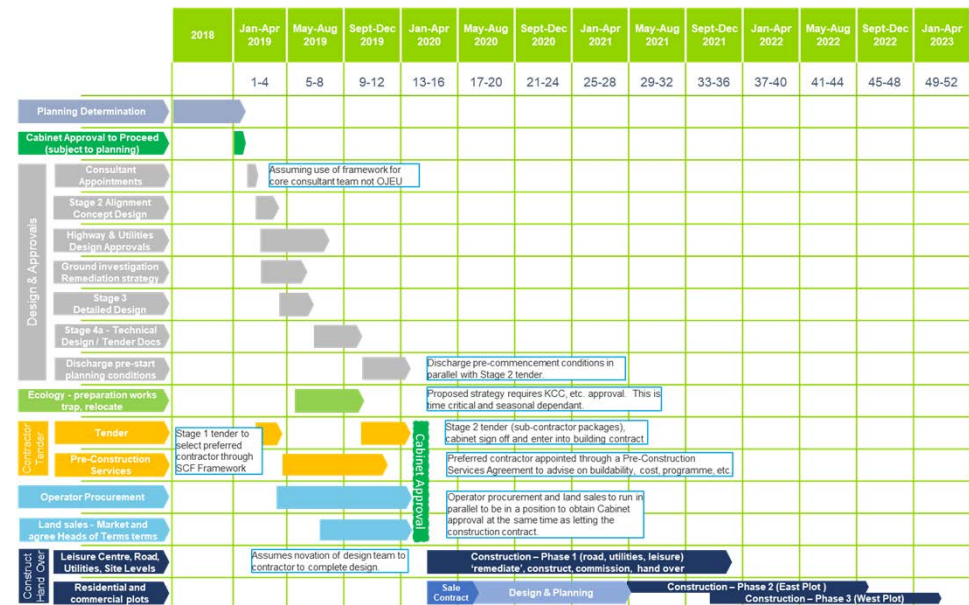
- A two stage develop and construct procurement route to be adopted.
- Design developed to Stage 4a (previously Stage E) in conjunction with the contractor and for the completion of the second stage tender.
- A fixed lump sum price is obtained for the works at the second stage tender.
- Key designers, e.g. architect, mechanical/electrical engineer and civil/structural engineer would be appointed by the Council to complete the design to Stage 4a, and then novated to the contractor to complete the design.
- The contractor is procured through the Southern Construction Framework, although this needs to be soft market tested to ensure there is sufficient interest from the contractors on the framework.

Consultant Procurement

- A single source framework, such as the PAGABO or Scape framework, be considered for the core team appointment, e.g. project manager, cost consultant, architect, M&E engineer, civil/structural engineer and principal designer, with the final selection being down to which framework provides the Council the best route to their preferred team.
- Deal with smaller 'non-core team' appointments as a variation to the framework appointment or as a direct appointment by the Council. Competitive quotes can be obtained in either option to demonstrate best value. There may also be instances where the Council's Construction Consultancy Framework could be used.

Programme and Phasing

- An alternative programme and phasing is proposed. This will help to de-risk the project for the Council and will realise programme benefits. This is summarised below.





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