

SHERINGHAM LEISURE CENTRE REDEVELOPMENT

Summary: The report explains the history of the Sheringham Leisure Centre project to date, where the stage has been reached to Award the main construction contract, which would allow completion of the new leisure centre in early 2021.

The broad financial position of the project is explained, along with the reasons for the need for additional budget in order to allow the Award of the contract.

Tender prices were above the estimated budget and due to site complications during the groundworks, the contingency is insufficient to cover the additional costs.

Options considered: Given the stage the project has got to and the Council's historic, and Members' recent, commitment to this facility, a cessation of the project has not been considered.

The option for a redesign in order to reduce the costs has been undertaken (value engineering) however any fundamental changes would diminish the quality and value of the facility and might jeopardise the Sport England grant. At this stage in the project it is not considered financially beneficial to redesign and re-tender due to the delays and consequent cost increases.

The only realistic alternative would be to abandon the new build and thus forego the costs expended so far.

Conclusions: The project to build a new leisure centre to replace the ageing Splash at Sheringham has now reached the point where the Council can award the construction contract.

However, during the design and tender stages of the project, the costs have risen significantly above the identified budget and, if the project is to proceed, Full Council will need to approve the additional budget before the construction contract can be awarded.

Recommendations:

- 1. That Council approves the additional borrowing requirement of £2.03m for the Splash leisure Centre project to increase the approved budget to £12.7m.**
- 2. That delegated authority is given to the Head of Finance and Assets to adjust the detailed**

financing of the scheme if required to maximise the value for the tax payer

3. That, assuming 1) above is approved, Council approves the formal award of the construction contract to Bidder B who provided the most economically advantageous compliant tender.
4. That the project be taken forward under a new system of governance, as a pilot of the Council's project Management methodology, with officers leading on the delivery and implementation, providing frequent status updates to the portfolio holder and regular updates to Cabinet.

Reasons for
Recommendations:

1 and 2 – to provide sufficient budget for the project

3 to enable the contractor to start work on building the new leisure centre.

4 to ensure effective project management and governance

LIST OF BACKGROUND PAPERS AS REQUIRED BY LAW

(Papers relied on to write the report, which do not contain exempt information and which are not published elsewhere)

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Cllr Greg Hayman - Assets Cllr Andrew Brown – Special Projects Cllr Virginia Gay – Leisure Eric Seward - Finance	Ward(s) affected Sheringham, but this is a facility designed to serve all residents of North Norfolk
Contact Officer, telephone number and email: Nick Baker – 01263 516221 nick.baker@north-norfolk.gov.uk Duncan Ellis – 01263 516330 duncan.ellis@north-norfolk.gov.uk	

1. Introduction

- 1.1 Members will be aware from previous Council reports that the project to design and construct a leisure centre to replace the ageing Splash Leisure

Centre in Sheringham, was commenced in mid-2017. An earlier study had shown that the Splash was beyond its design life, was deteriorating and was extremely expensive to run. Also that significant demand existed for a swimming pool based facility at this location.

- 1.2 Following production of an Indoor Sports Facilities Strategy for the district, a feasibility study for this site and a business case, Council approved a budget, appointment of external professional advisors (Leisure Consultants, Architects, Quantity Surveyors/Client-side construction advisors) and for the project to move into the design stage which would allow the Council to then tender the construction works.
- 1.3 The basis of the original budget approval was to provide a replacement for Splash with a new wet Leisure Centre on the same site, based on at that time, concept designs prepared by our appointed architects, Saunders Boston (SBA) with advice on the Leisure content led by FMG Consulting. This budget was approved at full Council in December 2017 at **£10,667,139 (£10.67m)**.
- 1.4 External funding was sought from Sport England, who were also involved in advising the project team and whose clear recommendation was that the existing Splash centre should remain open whilst the new facility was built
- 1.5 Enabling development was to be proposed on part of the existing Splash site, to provide capital or revenue funding towards the project. However, due to the need to keep the old facility open during construction, this will not be completed until after the new leisure centre is opened. Provision of a hotel is the preferred option, given the lack of such a facility in Sheringham, and the economic benefits this is likely to bring, as well as the financial contribution this would make to subsidising the new build. A housing development on the site could however be considered.
- 1.6 The project has been managed by an officer/consultant project group and overseen by a Member/Officer Board. Such arrangements had been used for previous major projects and the Member representation was politically balanced.
- 1.7 A project plan was developed, with project management split between the Council for the overall project, and our construction consultant, Real Consulting, for the specialist elements of the build, including procurement and design processes. These groups generally met monthly to maintain progress and oversight of the project.

2. Project Position

- 2.1 A design was worked up for the new facility, based on the proposed facility mix set out in the feasibility study as required to meet the calculated user demand.
- 2.2 Planning Approval for the project was obtained in late summer 2018.
- 2.3 A replacement skate park was agreed as site of the existing one was needed for the new build, in order to maintain the operation of the existing Splash. The new skate park was completed during winter 2018/19 allowing the site

access and constitution preliminaries to commence as phase one of the scheme (civils work).

- 2.4 The civils work was tendered prior to letting the main construction contract. This maintained progress, saving approximately six months on the overall build time, whilst final designs were worked up further to allow the full contract tender to proceed in parallel.

These works are progressing, with the various utility and highways works due for completion in late July.

- 2.5 The main construction tenders were returned in late March. Our project management consultants undertook the OJEU Compliant Procurement process, eventually shortlisting 2 contractors. Interviews were held in late April and subsequently the contractor providing the most advantageous tender was identified as 'Preferred Bidder' and is now awaiting formal award of the contract.

- 2.6 During the development of the scheme a number of issues have arisen which have significantly increased the likely cost of the project. These are detailed in the financial section below; however, they fall broadly into three categories:

- *Ground conditions*
Despite having a budget for ground works along with a contingency to cover unexpected items, the onsite conditions proved to be more challenging than anticipated and this increased the cost of the initial ground works.
- *Design requirements*
These were partly driven by the need for the facility to comply with Sport England requirements for grant funding and partly for the building to be of a design quality for the Council's requirements, both in terms of Planning and of future usage.
- *Tender Price Returns*
These were much higher than anticipated and well over the construction inflation, which had been allowed for in the original business case. There were a number of issues which impacted on this such as the actual size of the project which was slightly too large for a number of local contractors and not large enough to interest bigger national firms. The impact of Brexit, whilst considered, was also extremely hard to anticipate until the tender prices were returned. These were always going to be estimates and until it was known how competitive the tender process was going to be, and the tender prices returned, it was not possible to estimate with any greater level of accuracy.

- 2.7 Project Board Members were advised of any changes to the project plan and budget. The Head of Finance and Asset Management has advised further below on the total capital budget shortfall of c£2m.

- 2.8 Following the completion of the tender process, the construction costs are now known and, if approved, this will represent the final build cost for the design that was tendered, including certain savings that were made through 'value engineering' at the tender stage. The risk and volatility currently being

experienced in the construction industry apparently accounts for the higher than anticipated cost.

2.9 Design

The final design, based on the Sport England model for active leisure provision provides the following facilities:

- 25m, six lane pool
- 13m learner pool, with a moveable floor
- splash pad
- 50 station gym
- 24 station spin studio
- 2 multi-use dance/exercise studios

3. Preferred bidder

3.1 A formal two stage OJEU tender process was followed which provides the opportunity for all those companies interested to initially respond. We had 17 initial requests for the Stage 1 tender documents, of which 9 formally responded. These were scored against the evaluation criteria set out in the tender documents and 5 Contractors selected to provide a tender. Of these 5, 1 was local to Norfolk, 1 based in Cambridge and the other 3 were national companies.

3.2 Experience of developing 'wet' leisure centres was considered of paramount importance. During the 10-week tender period:

- the local Contractor pulled out as they won a significant project and could not resource our bid process
- one of the national Contractors pulled out also due to a large workload elsewhere
- the price of the third bidder was way too high and they were therefore not taken to the next stage

3.3 The top 2 bids were appraised and each was requested to suggest design amendments that would help bring the contract price down (a value engineering exercise (VE)). Interviews were held with both suppliers. Following the VE process the final submitted prices were as follows;

- Bidder A £11.3m
- Bidder B £10.9m

On that basis, Bidder B was selected as 'preferred bidder' until the contract is formally awarded.

4. Moving Forward

4.1 If the Council chooses to significantly modify the design, we would at this point have to declare a 'void procurement', and start another process. This would cause substantial delays, which would inevitably impact upon price.

It should be noted that under the Leisure Management Contract the cost of a delay to the opening of the new Splash facility, would be c£13k per month (c£156k per annum) (although this figure would need to be finalised and agreed with the leisure contractor, Everyone Active).

- 4.2 Leaving the design unchanged, would allow immediate award of the main construction contract following a Full Council decision, with mobilisation on site as soon as practicable thereafter, allowing the new facility to open in early 2021, with the enabling development to follow soon after.
- 4.3 A review of the way the Council manages projects is ongoing and this project will be the subject of some changes in that regard. There is a need to improve clarity of decision making within projects, so that officers and members are able to both fulfil their roles and for adequate scrutiny to be provided as the project progresses.
- 4.4 The project to build a new leisure centre to replace the ageing Splash at Sheringham has now reached the point where the Council can award the construction contract.
- 4.5 However, during the design and tender stages of the project, the costs have risen significantly and, if the project is to proceed as currently proposed, Full Council will need to approve the additional budget if the construction contract is to be awarded.

5. Implications and Risks

- 5.1 A number of reputational risks exist for the Council in projects such as this, typically around the following areas:
- Access to the existing facility during construction of the new one, especially on a constrained site such as this; this has been mitigated by providing a limited number of car park spaces adjacent to the existing facility whilst work proceeds, and through a lease agreement with Kingsland Engineering for the use of their car park, which is a very short walk away;
 - Noise, dust and other nuisance issues arising from a major construction project, which will be mitigated by good work practices on site and good communication between the Council, contractor and local residents and businesses;
 - Communication of progress and issues arising from the construction. This has been mitigated by the development of a Communication Plan for the project, keeping a general update for stakeholders whilst focussing on key stages of the project;
 - The change in facility mix and, whilst this has largely run its course with consultation and historical communication, there are still some underlying concerns from users who would prefer the facility on this site to have remained a leisure pool rather than one where health related active leisure can be more prominent.

6. Financial Implications and Risks

Budget Cost Projection Reconciliation

- 6.1 The basis of the original budget approval was to provide a replacement for Splash with a new wet Leisure Centre on the same site, based on at that time, concept designs prepared by our appointed architects, Saunders Boston (SBA) with advice on the Leisure content led by FMG Consulting. This budget was approved at full Council in December 2017 at **£10,667,139 (£10.67m)**.

- 6.2 Since that date the design has developed and options for the exact location of the new centre on the site explored. To enable the existing Splash facility to remain operational, earning income and maintaining user numbers, throughout the new build construction, it was agreed to locate the new facility at the front of the site.
- 6.3 This became the only viable option due to the many physical site constraints, particularly the need to retain the existing access road into the site and to retain the current level of users.
- 6.4 The new site location has contributed significantly to the increase in capital budget forecast, together with the influence of Sport England requirements, additional design requirements and the current contracting market.
- 6.5 The detailed budget movements compared with the original forecasts can be found within Appendix A but a high level summary is provided within the table below.

	Budget (£m)
Original budget	10.67
Client design changes	0.17
Site conditions	0.75
Design	0.35
Sport England requirements	0.27
Contractor tender returns	0.57
Contingencies & allowances	0.41
Cost model contingency & inflation	(0.49)
Total budget requirement	12.70
Additional budget required	2.03

- 6.6 As can be seen from the table above and from Appendix A, there are a number of issues which have impacted on the original budget projections and form the basis for additional funds to support an anticipated final project cost of circa **£12.7m** which would require additional budget of **£2.03m**.

Options for Addressing the Shortfall

- 6.7 Options have been considered to address this shortfall, which essentially centre on using reserves, redesigning the building and possibly, gaining improved value from the enabling development.
- 6.8 Advice has been provided by the Head of Finance and Asset Management, on the use of reserves for addressing the shortfall with an opportunity cost of £2m @3.3% = £66k per annum assuming the funds are not replaced.
- 6.9 If the Council were to borrow to cover the additional costs, the interest costs would equate to c£610k over the period. Coupled with the requirement to repay the principal sum of £2m, this would equate to an average annual cost of **£87k** per annum although members should note the phasing of

repayments is higher initially (£106k in year 1) and reduces over the life of the loan as the principal is repaid (£68k in the final year). This assumes a 30 year loan from the PWLB at 2.0% on an Equal Instalments of Principal (EIP) basis.

6.10 A redesign is certainly possible; however, officers are advised that this would give rise to the following:

- In very broad terms, to achieve a £2m reduction in cost, it would be necessary to significantly reduce the building size (at least 25%), which would have knock-on reductions to what could then be provided in terms of active leisure options within the building.
- This would then affect the cost of the leisure management contract, with higher revenue costs, although until a revised design was put to the contractor, it is impossible to estimate what these increases would be.
- As the £1m Sport England grant is predicated on the business case originally presented, a redesign could jeopardise this grant.
- Such a re-design may require a new planning permission. In addition, any new design would need to be tendered, with likely further inflation in market over the intervening period.

6.11 Officer advice therefore, is that much, if not all, of the financial saving from a redesign of the leisure centre could be eroded by resulting cost increases and lost grant. Potential re-design costs would also be significant.

6.12 The original business case assumed a net receipt for this development land of c£750k. As it is unclear at the present time which option will be taken forward, it is recommended that we continue with the assumption of a £750k equivalent capital value (ie either capital and or ongoing revenue combinations). However, it is recommended this should be with the caveat that, should the ultimate receipt for the disposal/redevelopment returns is lower that we make up any shortfall from other capital receipts, reserves or borrowing as required.

7. Equality and Diversity

7.1 The facility will be fully accessible, with facilities for those with disabilities over and above those required by the Building Regulations. Pool access has been approved by Sport England and a Changing Places facility provided for within the design.

8. Section 17 Crime and Disorder considerations

8.1 Whilst there are no s17 implications directly arising from the construction of the facility, it is recognised that active leisure plays an important role in providing an optional activity for those who may otherwise be drawn into anti-social behaviour.