

TITLE OF REPORT: NORTH HERTS LEISURE CENTRE (NHLC) - CAPITAL PROJECT

REPORT OF THE HEAD OF LEISURE & ENVIRONMENTAL SERVICES
PORTFOLIO HOLDER: COUNCILLOR JANE GRAY

1 SUMMARY

- 1.1 This report outlines a proposed change to the agreed North Herts Leisure Centre business case for the development. First an increase in the capital cost for the build element with an increase of £367,327 (12% of overall capital budget [of £3,018,000]). Secondly, a reduction in the guaranteed revenue income from the management contractor SLL, due to a 7.5 month delay ($7.5 \times £18,938 = £137,985$) in completing the teaching pool which has the effect of reducing the total income guaranteed under the management contract from £1,766,208 to £1,628,223 (7.8% reduction in revenue).
- 1.2 As shown in the table in 9.4 if the Council considers funding over the life time of this project, which is 25 years, then income in excess of £5.5m may be achieved, assuming demand in swimming lessons is as forecast and subsequent leisure management contracts forecast similar level of increased income. In addition the Council will be achieving its broader social objectives in meeting latent demand for swimming lessons and in more general terms providing an updated community leisure facility.
- 1.3 The Letchworth Rugby Club car parking scheme being considered elsewhere on the agenda is an alternative to the 15 car park spaces originally agreed as part of the project and would represent a £50k reduction in the approved capital budget.
- 1.4 If this project is terminated, the Council's options as discussed in table 9.4 would require the Council to make decisions on the future of the NHLC, further investment will be required to ensure the facility is fit for purpose or alternatively look at replacing the leisure centre (>£20m) in its entirety, which in current economic circumstances would prove difficult.
- 1.5 The report requests Cabinet recommends an increase in the capital programme to proceed with the project on the basis that whilst the cost increase would require a longer period to recover, and would not be wholly guaranteed, the benefits of the investment would largely remain deliverable.

2 RECOMMENDATIONS

Following consultation with the Project Board, the Project Executive recommends that Cabinet:

- 2.1 Agree to proceed with the development, noting the 7.5 months overall delay on the project and subject to Council approving the consequential amendments to the Capital programme;

- 2.2 Recommend to Council to amend the annual budget by way of an increase in capital of £317,327 and a reduction in revenue income of £137,985 in 2016/17

3 REASONS FOR RECOMMENDATIONS

- 3.1 To develop the NHLC to ensure this facility is fit for purpose for the future and to improve the financial and operational performance of the NHLC.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Alternative options were considered as part of the report to Cabinet on 16th December 2014.

5 CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS

- 5.1 Project Board have been controlling this project and this project has previously been considered and discussed by Councillors at a number of site visits and briefings to which all Councillors were invited.

- 5.2 Discussions have also taken place with the Heritage Foundation, in their role as landlord.

6 FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 22nd April 2015.

7 BACKGROUND

- 7.1 NHLC was built by the Letchworth Garden City Heritage Foundation (LGCHF) in 1982 and is now over 32 years old. The Leisure Centre was leased for 99 years on a full repairing lease, by the LGCHF, until 19th February 2081 on a peppercorn rent to NHDC. The Leisure Facility Strategy recommended that an options appraisal for the replacement, rebuild or refurbishment of the NHLC be completed.

- 7.2 A number of reports have been presented to Cabinet, the resolutions for each are set out in appendix 1. The following section provides the key outcomes of each committee.

- 7.3 At its meeting on 16 December 2014, Cabinet was presented with a report that outlined the proposal for undertaking capital investments to improve the North Hertfordshire Leisure Centre. The key outcomes were to agree the scope of work to be undertaken, that the extension to the Leisure Management contract for a further five years (2019 to 2024) be approved in principle and that Stevenage Leisure Limited shall pay NHDC an additional £18,398 per month for the entire length of the contract once the new teaching pool is opened.

- 7.4 At the Cabinet meeting on 27 January 2015 the Council's Capital Programme for 2015/16 was presented, including this project, and the Committee agreed this project capital spend.

- 7.5 At the meeting of 16 June 2015 Cabinet, the Committee were presented with two reports (part one and two) in respect of the Letchworth Leisure Management Contract and Development of North Herts Leisure Centre (NHLC), primarily with regard to the financial aspects of the project. It was agreed to proceed with the project, subject to

tender bids for the build element for all of the agreed capital budgets for the NHLC project coming in within the overall budget allocated.

7.6 Also at the meeting it was agreed that the variation to the Letchworth Leisure Management Contract, as set out in SLL business plan, be agreed subject to tender bids for the build element for all of the agreed Capital budgets for the NHLC coming in within the overall budget allocated. Cabinet also agreed to re-profile the Capital budget by bringing forward £67,000 to enable the Council to complete the two stage procurement and gain a full breakdown of the construction costs.

7.7 Since the June 2015 Cabinet committee, officers have worked with the Project Team to develop the construction work packages. Hutton Construction Ltd (the awarded construction contractor) has tendered out this work and received quotations for this work.

7.8 This project was identified as a Key Project for the Council in 2015/16. It supports the following two Objectives agreed for 2016 and beyond:

- Prosper & Protect
To promote sustainable growth within our District to ensure economic and social opportunities exist for our communities, whilst remaining mindful of our cultural and physical heritage
- Responsive & Efficient
To ensure that the Council delivers cost effective and necessary services to our residents that are responsive to developing need and financial constraints

8 CONSTRUCTION

8.1 At the commencement of this project, Project Board considered the best way in procuring the construction of the NHLC and was presented with three options, a traditional tender, single stage design & build and two stage design & build. Project Board considered the advantages and disadvantages for all options and agreed to undertake a two stage design and build route. To summarise, a two stage design and build procurement route has the following benefits:-

- Reduced programme over single stage as design and tender stages can be overlapped to a greater extent.
- Early contractor involvement ensures value engineering can be undertaken if required
- More likely to receive a quality product as the contractor margins are not as tight.
- Current market provides more competition and contractors consider this option less risk.

8.2 The design team (Focus) were appointed on a fixed price contract for the various stages. Currently the design team up to this stage has cost £218,645. In addition, the appointment of the main contractor (Hutton) and the cost of their works to date has cost £18,900. The total design cost to NHDC is therefore £237,545. The Council has approved a budget to this stage for the sum of £260,190.

8.3 Hutton (Main Contractor) was appointed on the basis of the known overall capital budget available for construction and in September at the first meeting between the Client's design team and themselves confirmed that the project could be delivered within the available budget, subject to tenders for the work packages being received.

- 8.4 The two stage design and build costs allows the main contractor to bid on the basis that they identify their costs (preliminaries and allowance for profit), but does not confirm the total cost of the build until all tenders for the work packages from sub contractors have been provided and agreed. This reduces the risk that a single stage Design and Build provides to the main contractor and in the current market was not considered advisable.
- 8.5 The issues arose when the work packages from sub-contractors came in over budget. The open book approach at this stage has allowed opportunities for a number of remedies to be implemented. These have included: -
- 8.5.1 Design team requesting other sub-contractors to quote
 - 8.5.2 Encouraging the main contractor to revisit their work packages to clarify or amend without impacting on the quality of the overall product
 - 8.5.3 This has included some work packages being market tested separately by the Project Team to ensure that the price Hutton's are providing is reflective of the current construction market
 - 8.5.4 For the design team to reconsider its initial design and value engineer to reduce costs, some examples include:-
 - 8.5.4.1 Modifying the curved glass in the cafeteria to flat, with minimal aesthetic consequences but significantly reducing capital and on-going maintenance costs
 - 8.5.4.2 A different approach to constructing the pool tank (spray rather than poured)
- 8.6 Over the past 12-18 months there has been a considerable increase in the volume of work in the UK construction market and due to the considerable downsizing that took place during the recession both contractors and sub-contractors have struggled to keep pace with demand.
- This has led to a considerable over-heating of the tender market and tender prices have as a result risen substantially.
- 8.7 We have reviewed the latest tender price indices as published by the RICS and between the date on which the estimate of construction costs was prepared (3rd Quarter 2014) and the completion date for the project (3rd Quarter 2016) they are showing an increase of approximately 12 % broadly in line with the cost increase identified in this report.
- 8.8 Whilst these indices account for a considerable proportion of the cost overrun they do not reflect the particular shortage of skills in certain areas of the industry, namely Groundworks and Mechanical and Electrical services installations where increases in rates of 30-50% have not been uncommon in tender returns over the past 6-8 months.

9 BUSINESS CASE

- 9.1 As shown in section 11 Financial Implications, there are revenue and capital considerations, that impact on the original Business Case. Our consultants B3 undertook a survey of the building and identified modification required to ensure the facilities are fit for purpose for the next 25 years. This included a number of internal improvements to existing facilities (changing rooms, sports Hall and corridors). In addition, consideration was given to other enhancements that would provide a better customer experience. Relocating the cafeteria to the entrance of the building provides not only improvement to catering but increases the opportunity for multi-use rooms for a range of activities (use of existing café area).

- 9.2 The teaching pool and café are not only a commercial opportunity, but these new facilities will improve the quality of provision to the residents of North Hertfordshire and surrounding areas. In particular the teaching pool will meet the identified needs for additional swimming lessons. Teaching children and adults to swim significantly reduces the risk of drowning and is considered a priority by many families.
- 9.3 The teaching pool was originally considered as an invest to save objective, with a known unmet demand for swimming lessons meaning there was an opportunity to provide this social need whilst increasing levels of income. The original Business Case showed that the contractor's (SLL) revised tender bid identified a monthly increase in income to the Council of £18,398, on the basis the management contract was extended to its maximum period (31st March 2024) The Business case assumed that the facilities would be open for public use by April 2016. However, the process of developing this project has increased the time required, with the main contractor now stating the works will not be completed until the middle of November. The consequence of the 7.5 months delay is that the original saving up to March 2024 has reduced from £1,766,208 to £1,628,223 (£137,985)
- 9.4 The following table illustrates the pros and cons of either continuing or terminating this project.

Options	Pros	Cons
Continue with existing project	<p>This improves the existing facility and meets current and future needs of our residents/users. In particular, with regard to latent demand for swimming lessons.</p> <p>The Council still benefits from increased revenue from the current leisure management contractor of £18,398. From middle of November 2016 to March 2024 this will equate to 88.5 months at £18,398 = £1.628m of increased income to the Council. If we consider that the life span of this project is at least 25 years we can add a further 211.5 months (17 plus years) therefore, providing a potential increase revenue of £3.891m. Overall assuming demand for swimming lessons remain unchanged the Council should be able to benefit from the additional income that this facility will provide, which should total in excess of £5.5m.</p> <p>When the contract is re-let in 2024 the ongoing benefits should continue. However, this is not reflected in the business case, but should be taken into account.</p> <p>As an example, the Councils invested in the Archers Health and Fitness facility in 2000 and over the last 15 years has recouped its capital investment and has provided the Council further additional revenue income.</p>	<p>The original business case has changed and is less financially attractive, requiring a further £367k additional capital costs together with an increase in time for the project completion, thus reducing the Councils additional income for 2016/17 by 7.5 months as the project will not be completed by April 2016, but by middle November 2016 (when the teaching pool is open to the public). This equates to £137,985, (£18,398 x 7.5).</p> <p>The recent increase in demand for the building industry has resulted in increases in time and cost to this project.</p> <p>The overall financial viability of the original Business Case within the life of the existing extended contract period can no longer be met.</p>
Terminate the current project	<p>Savings on the Council capital funds.</p> <p>Provide opportunities for other options to be considered, such as:-</p> <ul style="list-style-type: none"> a/ Complete replacement of the leisure centre (> £20m) in the next decade or more. b/ To withdraw/close the NHLC to reduce the Councils overall capital liabilities. c/ Provide a reduced scheme based on existing provision. 	<p>To abort the project the Council has already invested £237,545 to date.</p> <p>The concerns relating to the three options mentioned in the pro section are as follows: -</p> <ul style="list-style-type: none"> a/ £20m plus of capital in the next decade on a single project is highly unlikely to be achievable as too is the opportunity for external funding. Over time the condition of these leisure facilities will deteriorate and will have an adverse impact on usage and income. b/ Closure of the NHLC would have a significant negative impact on our residents/users as the nearest leisure pool is in Bedford and would increase the burden of swimming lessons and other activities on existing well used facilities. c/ Improving the existing facilities without a new cafeteria or swimming pool would not meet current or existing expectations, there would still be an unmet need for swimming lessons and the lost opportunity for increased revenue from our leisure management contractor (£18,398 a month, or £1.6m over the contract period).

10 LEGAL IMPLICATIONS

- 10.1 Cabinet has within its terms of reference to approve those major service developments or reductions which also constitute Key Decisions (para 5.6.11), and to oversee the provision of all of the Council's services, other than those functions reserved to the Council (para 5.6.15).
- 10.2 Where expenditure on any scheme is expected to exceed the current year financial provision by more than £25,000 or 10% (whichever is smaller), the Financial Regulations (at para 8.5.9) require the relevant Strategic Director to report to Cabinet with details of the reasons for the overspend and revised estimates for the contract. All reports to Cabinet must show how the overspend will be recovered or refinanced. In line with this provision, Cabinet has within its terms of reference to receive reports on contract overspends in accordance with the limits set out in the Financial Regulations and agree the action to be taken (para 5.6.23).
- 10.3 Cabinet can by resolution monitor quarterly expenditure on the capital programme and agree adjustments within the overall budgetary framework (para 5.6.7). The overall budgetary framework is the total amount approved by Full Council when setting the Capital budget and as amended as necessary through the monitoring process. If Cabinet is minded to proceed with the project, and no proposals for recovering or refinancing the overspend are available within the existing budget framework, then Cabinet may recommend to Council to revise the annual capital and revenue budgets to enable the scheme to proceed (para 5.6.34).
- 10.4 The contract award should be conducted in accordance with the Council's Contract Procurement Rules.

11 FINANCIAL IMPLICATIONS

- 11.1 The following table provides the estimated construction costs and the final tendered costs. The figures do not include other project costs such as survey costs.

NHLC Proposed Development	Capital & Revenue costs			
	Estimate	Actual	Difference	%
Total Capital	£3,018,000	£3,385,327	£367,327	12
Total Revenue (Income)	£1,766,208	£1,628,223	£137,987	7

- 11.2 The original Business Case showed the teaching pool being open for public use by April 2016. However, during the procurement process it has been identified that not only costs have been affected but also time as reflected in para's 8.7 -8.9, resulting in the teaching pool not being opened in April 2016 but delayed until mid November. This has resulted in the proposed variation to the contract with the Leisure Management Contractor being reduced by 7.5 monthly payments of £18.398 reducing the payback from £1,766,208 to £1,628,223 = £137,987, 7.8% reduction in the total revenue funds paid until March 2024.
- 11.3 Taking the increase in capital and reduction in revenue this equates to £505,314 (Capital £367,327 + Revenue £137,987). This affects the current business case but as explained in the table in para 9.4 if we consider the lifetime of the project being 25yrs, there is an argument to say there is still a sound business case to continue with this project.

- 11.4 As of 2 December 2015, the current financial obligations and costs to NHDC for this project is £237,545. At the June 2015 Cabinet officers reported that the total financial liability up to and including receiving tender bids for the main contractor would be £260,190. Further use of this funding may be required as there should be no delay in instructing utility companies to programme their work. This will require payments in advance, to ensure that there are no potential further delays in this area.
- 11.5 Included as part of the overall capital costs is an allowance of £50k for 15 car park bays. If these were removed because of the alternative proposal reported this evening as item 15, then the sum of £50k can be removed from this capital project as this may be required for the Letchworth Rugby Club car parking scheme reducing the additional capital requirement for this scheme from £367,327 to £317,327.
- 11.6 Confirmation has been received from the Design Team and Hutton Construction that their costs will remain as tendered.
- 11.7 In view of the increased cost of the project, authority from Council is required for either the additional expenditure of £317,327 or the deletion of the scheme from the approved programme.

12 RISK IMPLICATIONS

- 12.1 As outlined in the risk section of the June 2015 report to Cabinet, there was a risk of the tenders exceeding the original budget, this has unfortunately taken place. The detail of this has been explained in the financial implications section of this report.
- 12.2 The demand for the facilities may not meet the expectations in the Business Case which would lead to a negative impact on the financial position of SLL who bear the financial risk for NHDC in this respect. However, this in time could lead to an increased revenue cost when the contract is re-let.

13 EQUALITIES IMPLICATIONS

- 13.1 The Equality Act 2010 came into force on the 1 October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5 April 2011. There is a General duty, described in 12.2, that public bodies must meet, underpinned by more specific duties which are designed to help meet them.
- 13.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.3 The proposals contained in this report should be viewed positively as they will provide greater opportunity and significant additional capacity for people, and especially children, needing to learn to swim.

14 SOCIAL VALUE IMPLICATIONS

- 14.1 As the recommendations made in this report relate to the award of a public service contract, 'social value' must therefore be captured and reported in accordance with the Public Services (Social Value) Act 2012. In this instance, there is additional economic, social or environmental value evident in the following areas:-

- 14.2 Stevenage Leisure Limited (SLL) is a registered charity, a community-based and focused Non-Profit Distributing Organisation (NPDO). The company is a Social Enterprise, highlighting the social and environmental focus of its operations as an ethical company trading to benefit both people and planet, and recognised as 'Social Enterprise of the Year' in the 2012 Hertfordshire Chamber of Commerce and Industry's 'Inspiring Hertfordshire' Awards.
- 14.3 Since this report is in respect of reporting and seeking resource to cover additional costs arising from an existing, already awarded contract, then the principles of Social Value other than as described above do not apply at this stage, but would at the time of any renewal of or extension to contract with SLL as and when this applies in future.

15 HUMAN RESOURCE IMPLICATIONS

- 15.1 No direct Human Resource implications have been identified with this project.

16 APPENDICES

- 16.1 Appendix 1 – Cabinet resolutions for NHLC project.

17 CONTACT OFFICERS

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18 BACKGROUND PAPERS

December 2014 Cabinet report.
June 2015 Cabinet report.

Resolutions from Cabinet

16 December 2014 Cabinet, the Committee were presented a report that outlined the proposal for undertaking capital investments to improve the North Hertfordshire Leisure Centre. The following outlines the resolutions from the meeting: -

RESOLVED:

- (1) That the proposals relating to North Hertfordshire Leisure Centre, as set out in Resolutions (2) to (6) below, be agreed;
- (2) That the proposed improvements to the existing services and facilities, as stated in Paragraph 10.1 of the report, be agreed in principle, subject to the agreement of Letchworth Garden City Heritage Foundation and the Council's 2015/16 Capital budgets;
- (3) That the extension to the Leisure Management contract for a further five years (2019 to 2024) be approved in principle, as per the terms outlined in the report, which will be more specifically determined following detailed consideration of Stevenage Leisure Limited's submission of a revised tender by the Strategic Director of Customer Services, in consultation with the Portfolio Holder for Leisure;
- (4) That, on completion of the works (more particularly on the opening of the teaching pool for lessons, provided that the café and dance studio works are progressing reasonably), Stevenage Leisure Limited shall pay NHDC an additional £18,000 per month for the entire length of the contract;
- (5) That the changes to the swimming lesson charges and the leisure pool programme, as discussed in Paragraph 7.8 of the report, be supported, to ensure there is an opportunity to further improve the financial performance of the Letchworth Leisure Management contract; and
- (6) That the next stage of procuring of the design team be progressed, on the basis that this will have no additional cost but will save valuable time in the event that the Capital Programme and contract extension is approved.

REASON FOR DECISION: To obtain approval and support in principle to the improvements and capital investment into the North Herts Leisure Centre to ensure long term financial sustainability and to make improvements to meet current and future needs of our customers and communities.

- 18.1 The Council's Capital Programme for 2015/16 including this project and onwards was presented to the Cabinet Committee on 27 January 2015, this was agreed and set out below is the resolution: -

RESOLVED: That the changes to the projected Capital Programme for 2014/15 and onwards as a result of the changes to the schemes detailed in Paragraph 8.1 of the report, involving a decrease in expenditure in 2014/15 of £349,000 to a total of £9.254million, be approved.

REASON FOR DECISION: To ensure that the Capital Programme meets the Council's objectives and officers can plan the implementation of the approved schemes.

18.2 At the meeting of 16 June 2015 Cabinet, the Committee were presented two reports (part one and two) in respect of the Letchworth Leisure Management Contract and Development of North Herts Leisure Centre (NHLC), primarily with regard to the financial aspects of the project. The following outlines the resolutions from the meeting

RESOLVED:

- (1) That the variation to the Letchworth Leisure Management Contract, as set out in Paragraph 8 and Appendix 1 of the report, be agreed; and
- (2) That it be agreed to proceed with the project, subject to tender bids for the build element for all of the agreed capital budgets for the North Herts Leisure Centre (NHLC) coming in within the overall budget allocated.

REASON FOR DECISION: To develop the NHLC to ensure the facility is fit for purpose and to improve the financial and operational performance of the NHLC in line with Cabinet's decision at its meeting held on 16 December 2014.

RESOLVED:

- (1) That the quality aspects of the variation to the contract, as set out in Paragraph 8 and Appendix 1 to the report, be agreed; and
- (2) That the variation of the remaining part of the contract to commence at the completion of the project, as set out in Paragraph 8 and Appendix 1 of the accompanying Part 2 report, be agreed and, subject to this:
 - (a) it be agreed to proceed with the project subject to tender bids for the build element for all of the agreed Capital budgets for the NHLC coming in within the overall budget allocated; and
 - (b) it be agreed to re-profile the Capital budget and to bring forward £67,000 to enable the Council to complete the 2 stage procurement and gain a full breakdown of the construction costs.

REASON FOR DECISION: To develop the NHLC to ensure the facility is fit for purpose and to improve the financial and operational performance of the NHLC in line with Cabinet's decision at its meeting held on 16 December 2014.