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| <b>OVERVIEW AND SCRUTINY COMMITTEE</b> |
| <b>6 MAY 2025</b>                      |

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| <b>*PART 1 – PUBLIC DOCUMENT</b> |
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**TITLE OF REPORT: DECARBONISATION OF LEISURE CENTRES CONTRACT AWARD UPDATE**

REPORT OF: Director - Environment

EXECUTIVE MEMBER: Environment, Leisure and Green Spaces

COUNCIL PRIORITY: SUSTAINABILITY

**1. EXECUTIVE SUMMARY**

This report seeks to update Overview and Scrutiny on progress on the leisure decarbonisation project, including latest financial implications, prior to the Cabinet decision on the construction contract award on 20 May 2025.

**2. RECOMMENDATIONS**

- 2.1 That Overview and Scrutiny note the projected provisional increase in the capital budget to £16.166m.
- 2.2 That Overview and Scrutiny note the current estimated one-off revenue impact of £900k in 2025/26 through loss of income, due to partial and full facility closures.
- 2.3 That Overview and Scrutiny note and provide comment to Cabinet on the report.

**3. REASONS FOR RECOMMENDATIONS**

- 3.1 To enable Overview and Scrutiny the opportunity to scrutinise the progress to date of the leisure decarbonisation project, including spend to date and anticipated increases in capital budget expenditure, as well as loss of revenue implications, prior to the contract award decision being considered by Cabinet on 20 May 2025.

**4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 There would be an option to stop the project and not award the contract. This has been discounted for the reasons set out in paragraph 10.3.

**5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1 A project board has been established for consultation on the leisure decarbonisation project. The project board includes senior officers and the Executive Member for Environment, Leisure and Green Spaces, Cllr Debenham and Cllr Ian Albert, Executive Member for Finance and IT. The Director – Environment is Project Executive and a

representative from SIAS (Shared Internal Audit Service) is also included, to ensure good project management governance. The project board were advised of the latest budget projections for the project at a meeting on 15 April 2025.

## **6. FORWARD PLAN**

- 6.1 This report contains a recommendation on a key Executive decision that was first notified to the public in the Forward Plan on the 17 April 2025.

## **7. BACKGROUND**

- 7.1 The Council's leisure centres are a significant source of the Council's operational carbon emissions. In 2022-23, gas use across the three leisure centres accounted for 1,428 tonnes CO<sub>2</sub>e - 45% of the Council's Scope 1-3 emissions.
- 7.2 In November 2023, the Council submitted an application for Phase 3c of the Public Sector Decarbonisation Scheme (PSDS). The application included details of existing buildings and heating systems and high-level proposals to enable substantial decarbonisation of the three major leisure centres.
- 7.3 In February 2024, the Council was advised its application was successful, securing £7.74m to assist in replacing end of life gas boilers with Air Source heat pumps and on-site generation of electricity through installing Solar PV panels. Other measures such as new air handling units and external and internal insulation also form part of the project at the three leisure centres; North Herts Leisure Centre (NHLC), Hitchin Swimming and Fitness Centre (HSFC) and Royston Leisure Centre (RLC).
- 7.4 In addition to the decarbonisation works, the project includes plans to build a gym extension at Royston leisure centre and refurbishment of the changing village at that site, as well as a new change village at NHLC.
- 7.5 During development of the PSDS application, costs were developed based on the findings of Heat Decarbonisation Plans which had been produced. At this stage, very early design stages were submitted. Additional costs incurred, such as preliminary costs were not incorporated into the application. Further capital was therefore secured to cover these additional costs, plus the Council's own match funding contribution required as part of the grant award criteria. The original total capital allocation for PSDS (as at February 2024) was £10,803,000 (including the grant). At that time there were separate capital budgets for elements that are now part of the project i.e. NHLC air handling units (£250k), NHLC wet change (£250k), RLC change village refurbishment (£150k) and RLC gym extension (£1,000k).
- 7.6 During the detailed feasibility stage of the project, technical issues were identified, such as problems with insulating the underside of the roofs at the centres, resulting in additional costs being identified. Significant costs were also identified to terminate the agreements for the gas combined heat and power units (CHPs) which operate at NHLC and HSC. Therefore, at a meeting on 11 July 2024, Council resolved:

*(1) That Council approves an increase in capital expenditure of £2.4m into the capital programme for the decarbonisation work to the three leisure centres. The overall budget will be profiled across 2024/25 and 2025/26.*

(2) *That Council approves an increase in the capital budget of £250k for the Royston Leisure Centre (RLC) gym extension, to ensure the extension is built to net zero carbon standards.*

(3) *That Council approves revenue expenditure of up to £757k for termination and removal fees of the gas CHPs at North Herts Leisure Centre and Hitchin Fitness and Swimming Centre. This would be funded from General Fund reserves.*

7.7 In August 2024, the Council signed a Pre-Construction Services Agreement with WDC, enabling the detailed design of the schemes to take place.

7.8 During the detailed RIBA Stage 3 / Stage 4 design phase, a review of the proposed air source heat pumps (ASHP) at all three leisure centres highlighted significant additional running costs, compared to previous estimates at detailed feasibility stage. The matter was considered by Cabinet on 14 January and then by referral to Council. At a meeting on 15 January, Council resolved:

*That Council proceed with Option 4a (design and order the larger, bespoke heat pumps) and approve the additional forecast capital and ongoing revenue costs (including revenue costs of capital) and note the ongoing project risks.*

7.9 Following the Council meeting of 15 January, the total project budget was £15.559m. This includes the decarbonisation works (including Salix grant of £7.73m), the Royston gym extension and the refurbishment of the RLC change village and NHLC change village.

## **8. RELEVANT CONSIDERATIONS**

8.1 On 24 March 2025, WDC submitted a provisional contract sum of £15.895 million following completion of the detailed feasibility stage. This provisional sum has since been revised down by £110k, due to a contribution from Everyone Active for some additional works associated with the Royston Gym Extension. The revised cost plan includes budgets for the decarbonisation works, Royston Leisure Centre gym extension, Royston Leisure Centre changing village refurbishment and refurbishment of changing village at North Herts Leisure Centre. It should be noted that the final costs are still being negotiated and these will be updated prior to the contract award decision on 20 May.

8.2 During detailed feasibility, WDC identified a number of project issues which have resulted in increased costs since the last cost plan in October 2024. These costs are mainly attributed to roof issues, and cost increases relating to resizing of the heat pump units (as well as increased mechanical and electric requirements to support these larger heat pumps).

8.3 The table below outlines the budget picture based on the above provisional contract sum. In addition to the WDC contracting costs, there are £381k of additional costs which fall outside of the construction contract. These are for the Council's quantity surveyor, project manager, M&E consultant and Building Safety designer, as well as planning fees. These also include business rates and property management fees for the use of the former Iceland building in Hitchin, for storage of early ordered materials.

| <b>Description</b>   | <b>Value</b>      |
|--|-------------------|
| Total Project Budget - Includes PSDS, RLC CV Refurb, RLC Extension and NHLC CV refurb. | £15,559,000       |
| Capital Tolerance (5%)   | £777,950          |
| <b>With capital tolerance, funding available</b>                                       | <b>16,336,950</b> |
| WDC updated forecast   | £15,785,021       |
| QS, MEP, BSA Project Manager, planning Costs   | £381,169          |
| <b>Total forecast cost</b>   | <b>16,166,190</b> |
| Capital tolerance remaining  | £170,760          |

- 8.4 While the overall costs are within the current budget capital tolerances (totalling £777,950) set out in the Council's Financial Regulations, this leaves very limited contingency for any issues which may occur during construction phase. The Council's Quantity Surveyors have advised that they normally suggest a 10% contingency for construction projects of this size, however given this is a design and build contract and the contractor should be cognisant of the risks, having completed the first stage tender, they advised 5% would be a reasonable level. The key financial risks at construction stage are around electrical connections, existing mechanical systems being connected into and asbestos.
- 8.5 As set out in recommendation 2.1, Cabinet will be asked to approve an increase in budget– from £15.559m to approximately £16.166m (this figure is provisional at the time of writing). A 5% tolerance on this capital budget will then be available, in the event of unforeseen issues materialising during the construction phase. Our quantity surveyor is currently working with WDC on the costs, prior to the final contracting sum being presented to Cabinet on 20 May.
- 8.6 **Project spend to date:** Due to the requirements of the Salix grant funding, early orders had to be placed, prior to entering into the construction contract with WDC, to ensure the grant funding could be spent and claimed in the correct year. The following table provides a summary of costs incurred to this point:

| <b>Item</b>   | <b>Cost</b>          |
|---|----------------------|
| Supply and install A/C units at NHLC  | £146,355.89          |
| PSDS Design Fees  | £1,152,939.37        |
| Royston Gym Extension Design Fees   | £183,849.63          |
| Early Orders including: glazing, render, sports hall lining, PV panels, cooling plant, AHU upgrades, cladding | £1,248,429.23        |
| ASHPs   | £3,858,531.23        |
| Quantity surveyor (Varsity Consulting) and Project Manager  | £119,146             |
| <b>Total Spend</b>  | <b>£6,709,251.35</b> |
| <b>Salix Grant Claim made 21/3/25 (Salix approved)</b>  | <b>£2,422,088</b>    |
| <b>Salix Grant Claims made 17/4/25</b>  | <b>£3,743,176</b>    |

- 8.7 **Closure programme:** WDC have also been working on a programme of closures for the three sites to accommodate the works. While mitigation measures are being put in place wherever possible, unfortunately the programme of planned closures is more significant than originally anticipated.
- 8.8 A key issue has been with planned works to install insulation and solar PV on the roof of the swim centre at Hitchin. The roof does not contain a structural deck and therefore this has created a health and safety risk of materials and people falling through the roof. Various solutions were considered to mitigate the risk and the final solution agreed upon involves installation of netting on the underside of the roof and a partial daily pool closure for approximate 21 weeks, Monday to Friday, 8am to 3pm. The pool will then reopen from 4pm each day, enabling swimming lessons to continue and will be open all day at weekends. The works will also take place over the learner pool section first, enabling the learner pool to fully reopen after approximately 9 weeks.
- 8.9 While mitigation measures have been put in place wherever possible e.g. during refurbishment of the wet change facilities at Royston and NHLC villages, swimmers will be encouraged to come dressed 'swim ready', enabling the pools to stay open wherever possible. There are also planned whole site week-long closures for all three sites, for the UK Power Networks work associated with the new sub-stations. However, it is anticipated that these closures may only be a couple of days, rather than a whole week.
- 8.10 The current estimated one-off loss of revenue for the closures across all three sites is approximately £900k. This is a cost which the Council will have to bear, as per the requirements of the Leisure and Active Communities contract. The table below gives an outline of the planned closures across the sites, however this is still subject to change, as the programme is not yet finalised.

| Site        | Closure Location                  | Weeks |
|-------------|-----------------------------------|-------|
| <b>RLC</b>  | Pool                              | 2     |
|             | Pool Changing Village             | 7     |
|             | Sports Hall                       | 8     |
|             | Sports Hall Reduction             | 14    |
|             | Gym & Studio                      | 4     |
|             | Full Centre                       | 1     |
|             |                                   |       |
| <b>NHLC</b> | Main Pool                         | 4     |
|             | Pool Changing Village             |       |
|             | Sports Hall                       | 13    |
|             | Reception                         | 4     |
|             | Cafe reduced offering (cold food) | 7     |
|             | Gym reduced occupancy             | 11    |
|             | Full Centre                       | 1     |
|             |                                   |       |

|             |                       |  |
|-------------|-----------------------|--|
| <b>HSFC</b> | Pool                  | 23 weeks partial as per paragraph 8.8 (includes 2 weeks full reopening over Christmas) |
|             | Netting installed     | 2 (investigating option for overnight working to prevent closure)                      |
|             | Remove netting        | 2 (investigating option for overnight working to prevent closure)                      |
|             | Gym                   | 6  |
|             | Studios (1 at a time) | 3  |
|             | Full Centre           | 1  |

## 9. LEGAL IMPLICATIONS

- 9.1. Cabinet has remit, as per its Terms of Reference (at paragraph 5.7.8) include “to monitor quarterly revenue expenditure and agree adjustments within the overall budgetary framework”. Cabinet can agree (usually through the quarterly budget monitoring reports) to increases in forecast spend. Where these have an ongoing impact, these are then incorporated into budgets for future years. However, such decisions are required to be in the context of the budgetary framework and that must consider the degree to which there is an element of choice and the financial value. The advice of the Director: Resources (as Chief Finance Officer) is that such a decision is within the budgetary framework and therefore can be taken by Cabinet.

## 10. FINANCIAL IMPLICATIONS

- 10.1. The revised current capital forecast for the project is £16.166 million. This is against an allocated capital budget of £15.559 million. This increase is within the capital tolerances (totalling £778k) set out in the Council's Financial Regulations. From a capital investment perspective, this means that whilst the project could continue without Cabinet approval, this leaves little room for unforeseen contingency (a 5% allowance is recommended). Therefore, Cabinet will be recommended to increase the capital budget to £16.166m (subject to final contracting sum), which includes the total WDC contracting sum and the Council side costs of £381kk. There will then be a 5% capital tolerance on this revised budget, which can then be used as contingency (if required).
- 10.2. In setting the 2025/26 budget, a budget risk of £50k was included for closures during these works. Budget risks are reflected in setting the minimum General Fund balance for the year and are a way for Council to approve potential spend when there is not enough certainty to approve a specific budget. We now have that greater certainty. Whilst it shows the original estimate was insufficient, the Council has sufficient General Fund reserves to absorb that cost without any detrimental impact on our Medium-Term Financial Strategy.

- 10.3. If there was a decision to stop the project (i.e. not enter into a construction contract and approve the required funding) then we would lose the PSDS funding, as we would not be doing the work that the funding is contingent upon within the required timescales. As specified in paragraph 8.6 we have incurred costs of £6.709 million. Some of this is design work which may still be useful if the project was revisited in the future, but would revert to being a revenue cost in the short-term. The capital purchases may be able to be sold (either back to the supplier or a third party) or retained for future works. Both options could involve substantial costs, either for the discount that would need to be applied, or for storage costs.

## **11. RISK IMPLICATIONS**

- 11.1. Good Risk Management supports and enhances the decision-making process, increasing the likelihood of the Council meeting its objectives and enabling it to respond quickly and effectively to change. When taking decisions, risks and opportunities must be considered.
- 11.2. The project features on the Council Delivery Plan, which includes the overall risk assessment. It also has a detailed project risk log which is presented to the project oversight group. There are key risks associated with both cost and timescales.

## **12. EQUALITIES IMPLICATIONS**

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their 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.
- 12.2. There are no equalities implications resulting from this report.

## **13. SOCIAL VALUE IMPLICATIONS**

- 13.1. As the recommendations in the report relate to a contract above £50,000, Social Value will be incorporated in the procurement process.
- 13.2. The Public Services (Social Values) Act 2012 imposes an active duty on relevant contracting Authorities to consider the economic, environmental and social benefits that can be achieved through commissioning. It does so by requiring consideration of the improvements of economic, environmental and socio-economic of the procurement to wider society.
- 13.3. The Council will be using the SCAPE Procure Regional Construction Framework for the procurement and social value is integral to SCAPE's approach and operations. Utilisation of the Framework ensures Social Value outcomes; for example, utilising a 'go local' approach to spend which benefits the local economy.
- 13.4. SCAPE unlocks social value at scale, through procurement solutions and innovative joint ventures, which engender long-term collaborative relationships with framework delivery partners and with the Council, creating scope to plan sustainably and invest for the future. SCAPE generates social value both directly, through its activities; and indirectly, by regulating supplier behaviour through procurement and thought leadership.

## **14. ENVIRONMENTAL IMPLICATIONS**

- 14.1. Whilst there are carbon costs associated with construction, the project is solely focused on improving the energy efficiency of the sites and implementing renewable energy solutions to substantially decarbonise the sites. This should lead to a significant overall reduction in operational carbon emissions. Section 7.10 identifies that fabric work (glazing, new roofing, cladding etc) may prolong the life of the buildings, reducing the risk of needing to demolish and replace buildings, which may have a higher carbon cost.

## **15. HUMAN RESOURCE IMPLICATIONS**

- 15.1 To ensure resource can be appropriately managed, a Project Manager has been appointed to support the project, alongside a quantity surveyor to represent the Council's interests.

## **16. APPENDICES**

- 16.1 None.

## **17. CONTACT OFFICERS**

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## **18. BACKGROUND PAPERS**

- 18.1 Other than reports mentioned above, no other Part 1 papers.