

**REPORT BY EXECUTIVE DIRECTOR OF ECONOMIC GROWTH AND
NEIGHBOURHOOD SERVICES**

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| TO: | COUNCIL | | |
| DATE: | 8 JUNE 2021 | | |
| TITLE: | UPDATE ON CONSTRUCTION COSTS OF NEW LEISURE FACILITIES | | |
| LEAD COUNCILLOR: | CLLR GRAEME HOSKIN | PORTFOLIO: | HEALTH, WELLBEING & SPORT |
| SERVICE: | CULTURE | WARDS: | BOROUGHWIDE |
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1. EXECUTIVE SUMMARY

- 1.1 This report seeks approval to increase the capital spend allocation for the new leisure facilities at Rivermead and Palmer Park by £2,433k largely as a result of an increase in construction costs due to delays to the schemes starting on site as a result of Covid19.
- 1.2 On 20 January 2020 the Council authorised the award of a 25-year contract with GLL to design, build, operate and maintain (DBOM) the Council's four leisure centres; and delegated authority to officers to finalise contractual arrangements with GLL.
- 1.3 These contractual discussions were progressing but were disrupted by the Covid19 pandemic and the temporary closure of leisure facilities, which has delayed the signing of the DBOM contract.
- 1.4 In the interim, on 24th August 2020 Policy Committee delegated authority to officers to enter into a Planning Cost Agreement with GLL to progress the design and planning approval of the new build elements at Rivermead and Palmer Park and limit the impact of Covid19 on leisure facilities. On 31st March 2021, planning consent was given for the two schemes.
- 1.5 An expression of funding has been submitted to Sport England for £1,500k to contribute to the construction cost of the new leisure facilities.
- 1.6 A new timetable for the construction of the facilities is also set out in the report.

2. RECOMMENDED ACTION

Council is asked to resolve as follows:

- 2.1 to increase the capital budget by £2,433k for the provision of new leisure facilities,
- 2.2 to increase the capital budget by a further £1,500k if the funding application submitted to Sport England for £1,500k does not materialise in full or part,
- 2.3 to authorise the Director of Finance to amend the Medium Term Financial Strategy to reflect the £3,933k increase in capital spend for the new leisure provision.

- 2.4 to delegate to the Executive Director for Economic Growth and Neighbourhood Services scheme and spend approval for £38.451m for the full cost of the Leisure procurement project in consultation with the Director for Finance.
- 2.5 to note the submission of the funding application to Sport England for £1,500k contribution to the construction cost of the new leisure provision.
- 2.6 To note the updated timetable to construct the new facilities at Rivermead Leisure Centre and Palmer Park Sports Stadium.
- 2.7 To note the Council considers the use of a pensions bond as poor value for money and will assume the small risk that the contractor ceases trading in the future and that a deficit on the pension scheme develops.
- 2.8 That the Director of Finance be authorised to utilise Community Infrastructure Levy as a funding source for the project

3. POLICY CONTEXT

- 3.1 Reading has a range of leisure facilities that are of mixed quality and the Council recognises that the provision of suitable and readily accessible sports facilities underpins participation in sports and physical activity and supports the delivery of the social and economic benefits that can be attributed to an active community. With over 750,000 people using the Borough's sports and leisure facilities across the town each year, Reading needs a leisure offer that reflects its needs and that aligns with the Council's wider policies and priorities, including public health objectives and tackling inequality.
- 3.2 An extensive procurement process to find a leisure partner to design, build, operate and maintain (DBOM) boroughwide leisure facilities culminated on 20 January 2020, with Policy Committee awarding a 25-year DBOM contract to Greenwich Leisure Limited (GLL) and delegating authority to officers to finalise the contract arrangements. Officers were in the process of finalising the DBOM contract terms with GLL, when the Covid19 pandemic broke out in March 2020 delaying the contract terms. The DBOM contract is now shortly to be signed.

4. THE PROPOSAL

- 4.1 GLL and officers have been finalising the contractual arrangements for the DBOM contract including agreeing on a final construction cost for the new leisure facilities at Rivermead and Palmer Park. This included reducing the level of provisional sums within their original bid and agreeing on costs associated with the outcome of the 31st March planning approval for the new facilities.
- 4.2 In early April, GLL presented their final construction costs and, with a small client contingency, has shown an uplift in costs due to the following broad areas: (more details are provided in the financial implications section of the report)
 - Construction inflation since the bids were submitted in December 2019
 - Extra prelims to comply with Covid19 construction safety practices.
 - Extra costs to ensure compliance with planning conditions.
 - Firming up some provisional sums into fixed prices with remaining provisional sums in the contract (eg. Asbestos, de-watering costs) costs risk reduced by a small client contingency.
- 4.3 These costs have been reviewed by two independent cost consultancy firms experienced and knowledgeable in the costing of new leisure centre builds. Both confirm that the

costs are at a competitive market rate and have benchmarked the cost per m2 against recent comparable new leisure builds.

- 4.4 The final uplift in capital costs taking into account the construction costs and savings above amounts to £2,433k of additional capital expenditure. These costs have been based on contract signature in mid June, if there is a delay to this there is the likelihood the construction costs will further increase.
- 4.5 Throughout the procurement process the Council has been working closely with Sport England. The Council have been invited by Sport England to submit an expression of interest to the Strategic Facilities Investment Fund. The expression of interest for the £1.5m grant was submitted on 18th May 2021 and, if approved, the full application will follow on 1st June 2021 with a decision on the grant funding anticipated by 15th June 2021.

Options Appraisal

- 4.6 To reduce the increased capital spend back to the original approved level will involve removing large cost elements of the new leisure facilities (eg. reverting back to a 4 lane pool at Palmer Park) or omitting key works programmed to existing facilities (eg. A new roof at Palmer Park, or new fitness facilities at Meadway Sports Centre and South Reading Leisure Centre). This would also mean re-submitting a new planning application for Palmer Park delaying its construction and impacting on the increased income from improved facilities.
- 4.8 Any changes to the fundamental design of the new facilities and planned improvements to existing leisure facilities will result in re-design fees and additional construction inflation costs reducing the savings benefit from such changes. There would also be a delay to the DBOM contract agreement and all the social and public health benefits arising from the new leisure provision. The Council is not obliged to enter the Contract with GLL if it now considers that the costs are too high. The implication of this choice would be a further procurement process to find a new development partner, or to work up an in-house scheme for the Council to develop and run its own facilities. As part of the Policy Committee decision taken in January 2020, work was undertaken to assess the value for money of retaining the service inhouse. Over all an in-house provision would cost in the region of £1.7m extra per annum to run when all centres are fully operating and re-provisioned.
- 4.9 Should the proposed uplift in capital spend be approved then the DBOM contract and construction start on site would both occur this Summer 2021 with the
- New pool at Palmer Park open - Autumn 2022
 - New Pool at Rivermead open - Spring 2023

5. CONTRIBUTION TO STRATEGIC AIMS

- 5.1 Reading's future leisure provision will contribute towards the achievement of the following Council Priorities:
- Healthy Environment
 - Thriving Communities
- 5.2 The new leisure facilities will modernise facilities and create affordable, accessible services to improve the physical and mental health of residents.
- 5.3 The Council will work with its new leisure partner in the delivery of key national and local strategic policies. It will also demonstrate that investment and action is making a positive difference to people's lives and show the impact the delivery of the leisure service is having on local individuals and communities and public health outcomes.

5.4 Whilst the town's culture and leisure opportunities are accessed by the vast majority of residents there are significant cohorts who face barriers to access. This can lead to increased levels of obesity and poorer health and well-being for both adults and children in respect of physical activity; and poorer quality of life, mental health, social isolation and well-being. Addressing these barriers and widening participation is a key outcome requirement.

6. COMMUNITY ENGAGEMENT AND INFORMATION

6.1 Consultation with key stakeholders has been carried out in 2019 involving an on-line survey, face to face interviews and focus groups as part of the work to develop an indoor sports facilities strategy. This consultation also included a range of sports clubs and operators and involved the Amateur Swimming Association (ASA) and Sport England to ensure that lead governing bodies for a variety of sports have been able to directly influence the strategy and are confident that it reflects their interests and input.

6.2 The proposed new facilities at Rivermead and Palmer Park were subject to statutory public consultation as part of the planning approval process leading to planning consent on 31st March 2021.

7. EQUALITY IMPACT ASSESSMENT

7.1 In addition to the Human Rights Act 1998 the Council is required to comply with the Equalities Act 2010. Section 149 of the Equalities Act 2010 requires the Council to have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

7.2 An Equality Impact Assessment was undertaken on the proposals and recommendations as part of the Policy Committee decision taken in January 2020.

8. ENVIRONMENTAL AND CLIMATE IMPLICATIONS

8.1 The Council declared a Climate Emergency at its meeting on 26 February 2019 (Minute 48 refers). The current leisure facilities are ageing and do not have the benefit of being built to modern standards including current energy efficiency standards. GLL has committed to developing the designs for Rivermead and Palmer Park to BREEAM Excellent standards, to use renewables where possible to achieve building control compliance and to help reduce carbon emissions and improve environmental efficiency, this includes triple glazing, improved LED Lighting, improve lighting control, extra photovoltaic (solar) panels and air source heat pumps.

9. LEGAL IMPLICATIONS

9.1 The Council has power under the Local Government (Miscellaneous Provisions) Act 1976 to provide such recreational facilities as it thinks fit including the provision of buildings, equipment, supplies and assistance of any kind. The Council may make such facilities available either without charge or on payment of such charges as it thinks fit.

9.2 The procurement process for the DBOM contract has been conducted in compliance with the Council's Contract Procedure Rules and in accordance with the Public Contract Regulations 2015 using the Competitive Dialogue Process.

- 9.3 Given the cost implications outlined in this report, arising from the delay caused by the pandemic and the additional considerations, the Council has the power to amend the original contract to proceed with the bidder identified by the previous procurement process. There is no obligation to re-run the procurement process at this stage. The pandemic implications would have applied to any other bidder as they apply to GLL.
- 9.4 The Council is not obliged to enter the Contract with GLL if it now considers that the costs are too high. The implication of this choice would be a further procurement process to find a new development partner, or to work up an in-house scheme for the Council to develop and run its own facilities.

10. FINANCIAL IMPLICATIONS

Capital

- 10.1 In February 2021 the Council approved its capital budget. This included £34,518,000 in total for the leisure contract, made up of expenditure of £36,018,000 less an assumed grant from Sport England of £1,500,000. The proposals in this paper will increase the total budget to £38,451,000 with the increase to be funded from CIL. The budget will change as follows:

| Budget approved Feb 2021 | Expenditure | Sport England Grant | Net Budget |
|------------------------------------|---------------|---------------------|---------------|
| | £000's | £000's | £000's |
| 20/21 | 950 | | 950 |
| 21/22 | 21,277 | -750 | 20,527 |
| 22/23 | 12,785 | -750 | 12,035 |
| 23/24 | 1,006 | | 1,006 |
| Total | 36,018 | -1,500 | 34,518 |
| Addition proposed June 2021 | 2,433 | 1,500 | 3,933 |
| New budget | 38,451 | 0 | 38,451 |

If the Sport England grant application is successful then the capital funding requirement will reduce.

- 10.2 The table below shows the changes in the construction costs at June 2021:

| | Original Costs Dec 2019 (£000's) | Updated Costs June 2021 (£000's) | Cost Difference (£000's) |
|--------------|--|--|--------------------------------|
| Rivermead | £22,528 | £24,407 | £1,879 |
| Palmer Park | £10,858 | £11,412 | £ 554 |
| Total | £33,386 | £35,819 | £2,433 |

The costs at other sites remain unchanged.

- 10.3 The £2,433k uplift is comprised of the following broad costs:
- £1,168k of extra costs are due to the delay of starting on site as a result of the Covid19 pandemic and relates to additional construction inflation and additional safety measures to comply with current Covid construction advice.

- £205k of extra costs for storm water retention to comply with current legislation and planning conditions on managing ground water flood risk.
- £232k of extra costs to comply with planning conditions for ground contamination remedials and dewatering costs at Rivermead.
- £202k of extra costs relating to the diversion of existing and the provision of new utilities based on updated quotes received from statutory service suppliers.
- The original GLL bid still carried cost risk to the Council in the form of £1.8m of provisional sums. To manage the residual exposure to the council of increased costs arising from the provisional sums, an additional £626k is added as a client-side contingency.

10.4 These costs have been reviewed by two independent cost consultancy firms experienced and knowledgeable in the costing of new leisure centre builds. Both confirm that the costs are at a competitive market rate.

10.5 These costs have been benchmarked on cost per m² against similar new leisure centre builds elsewhere in the table below and show that construction costs for Rivermead and Palmer Park are competitive in the market.

| Building cost comparisons | Building Cost Rate (£m²) |
|---|--|
| Leisure centre A - Surrey | £ 2,014.02 |
| Leisure centre B - Central Bedfordshire | £ 2,513.40 |
| Rivermead Leisure Centre | £ 2,577.79 |
| Leisure centre C - Hertfordshire | £ 2,843.07 |
| Leisure centre D - Surrey | £ 2,848.13 |
| Leisure centre E - Warwickshire | £ 3,195.17 |
| | |
| Palmer Park Sports Stadium | £ 1,857.89 |
| Leisure centre A - Central Bedfordshire | £ 2,096.34 |

10.6 Community Infrastructure Levy (CIL) is a charge on new development that the Council collects and must be spent on infrastructure. Policy Committee on 15th February 2021 agreed a revised protocol for spend of CIL, which states that 80% of CIL should be focused on the following:

- Education
- Strategic Transport Projects
- Strategic Leisure / Culture

10.7 It is proposed to use CIL as a funding source for this project, including the additional £2.433 million that is requested for approval in this report and the £1.5 million that remains at risk until Sport England funding is confirmed. The amount of CIL that can be allocated will depend on the amount collected, but current forecasts suggest that at least £2.5 million of 80% CIL will be available to allocate to infrastructure each year over the next four years.

Revenue

- 10.8 The contractor submitted its tender bid and has maintained that financial proposal except for changes arising from the pandemic and from changes in the timing of the new leisure centre construction.

The table below sets out the revenue position taking into account the latest plans for the timing of the construction of the new leisure facilities. That timing is important because the contractor is expecting to pass to the council the benefits of additional memberships attracted by the new facilities.

Compared with the proposals made in December 2020 the contractor's final submission in May 2021 is less costly to the council by £821k over the first five contract years.

The budget uncertainty created by the delay in starting the contract meant that the budget could not be set with accuracy. Over the three years of the council's financial plan there will be a favourable budget variance overall. The favourable budget variance in 21/22 will be considered to be treated as a carry forward to meet the adverse budget variance in 22/23. From 23/24 the budget will move into an annual favourable variance.

| <i>Council Financial Year</i> | <i>Council budget</i> | <i>GLL Revenue Proposal</i> | <i>Forecast Budget variance ('-' = underspend)</i> |
|-------------------------------|-----------------------|-----------------------------|--|
| | £000s | £000s | £000s |
| 2021/22 | 1,825 | 1534 | -291 |
| 2022/23 | 1,026 | 1242 | 216 |
| 2023/24 | 458 | 381 | -77 |
| 2024/25 | 458 | -214 | -672 |

Pensions

- 10.8 The contractor will be taking on the employment of a number of council staff, but they will remain in the council's pension scheme. It can happen that pension schemes develop deficits. If that happens under this contract then the contractor must meet the cost of the deficit. If the contractor had ceased trading then it would not be able to meet that cost. To cover this risk some contractors take out a pensions bond and pass on the annual cost to the client council. In the case of the leisure contract the cost of that will be £11k per annum. The Council considers that the risk is small, and does not justify the cost. In the unlikely event that there is a pension deficit and the contractor has ceased trading then the Council would need to meet the cost of any deficit.

11. BACKGROUND PAPERS

- Policy Committee - 20 January 2020 - Award Of A Design, Build, Operate And Maintain Contract For Boroughwide Leisure Facilities