

EAST HERTS COUNCIL

COUNCIL – 24 July 2019

REPORT BY THE EXECUTIVE MEMBER FOR WELLBEING

REPORT TITLE: UPDATE ON LEISURE CENTRE CAPITAL DEVELOPMENTS – PROPOSAL FOR ADDITIONAL FUNDING

WARD(S) AFFECTED: All

Purpose/Summary of Report

- Two years have passed since the funding for the leisure projects was approved. During this period, inflation has risen at a higher rate than was forecasted, and additional works have been identified following more detailed surveys.
- There is an opportunity to enhance the sustainable energy features to help to reduce energy consumption and resultant CO2 emissions, in accordance with the council's climate change policy principles approved by Executive in February 2019.
- This report sets out the updated costs, in the context of value engineering savings that have already been achieved on both leisure centre designs that reduce the scale of the request, and seeks approval for additional funding for the completion of the schemes, including funding for additional energy saving features.

RECOMMENDATIONS FOR COUNCIL: That:

(A)	Additional funding of £1.558m is agreed for the completion of the Hartham Leisure Centre refurbishment, to be funded from a combination of future s106 receipts, new homes bonus, borrowing and/or any other opportunities identified;
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(B)	Additional funding of £1.024m is agreed for the completion of the new Grange Paddocks Leisure Centre, to be funded from a combination of future s106 receipts, new homes bonus, borrowing and/or any other opportunities identified;
(C)	Authority be delegated to the Head of Strategic Finance & Property and the Head of Planning & Building Control to identify and agree the specific funding referred to in recommendations (A) and (B); and
(D)	Additional funding of up to £1m is agreed to provide extra sustainable energy features at Hartham and Grange Paddocks leisure centres; to be funded from a combination of future s106 receipts, new homes bonus, borrowing and/or any other opportunities identified, with the decision on the specific features delegated to the Head of Strategic Finance & Property.

1.0 Background

Inflation

- 1.1 In July 2017, Council approved capital funding for a refurbishment and extension of Hartham leisure centre (£7,113,000) and the replacement of Grange Paddocks leisure centre (£21,997,939).
- 1.2 The cost plans for these schemes were calculated in March 2017 and included an allowance for inflation, and assumed that construction would commence in January 2019. At the time the cost plan was produced, four of the largest UK quantity surveyor practices and the Building Cost Information Service (BCIS) were forecasting tender price inflation rates for the period Quarter 1 2017 to Quarter 2 2019 as follows:
 - 5.1% BCIS
 - 5.0% AECOM
 - 4.0% G&T
 - 2.3% Gleeds
 - 1.0% Arcadis
- 1.3 There is a large variance between these forecasts, and this was due to the differing views in the market of the potential impacts of Brexit.
- 1.4 In the Grange Paddocks and Hartham cost estimates produced by AECOM in 2017, a 5% inflation allowance was included; a figure at the higher end of the scale of predictions for this period.
- 1.5 Since 2017 however, the effect of Brexit on the construction market has not been as adverse as many were anticipating, and construction costs have continued to increase steadily given that the market has remained relatively buoyant. The March 2019 BCIS indices show the actual tender price inflation from Quarter 1 2017 to Quarter 1 2019 was 8.7%; some 3.6%

higher than the highest forecasts made in 2017, and 9.7% higher than the lowest forecast.

- 1.6 In addition, the project is now due to commence in Quarter 1 2020 rather than Quarter 1 2019, which means a further year of inflation to the tender price. The BCIS inflation forecast for the period Quarter 1 2019 to Quarter 1 2020 is 4.3%. (This delay is further explained within the Procurement section at 1.16).
- 1.7 Accounting for cumulative interest, the inflation rate from Quarter 1 2017 to Quarter 1 2020 is therefore 13.4%; an increase of 8.4% from the original 5% in the budget for Quarter 1 2017 to Quarter 1 2019.

Scheme Costings & Temporary Facilities

- 1.8 These schemes are being delivered through a design and build process that follows the Royal Institute of British Architects (RIBA) 'Plan of Works' system, which is split into stages. At RIBA stage 2 of this process the schemes were re-costed based on updated construction rates, revised inflation information and with information provided through a range of site surveys and assessments. The effect of the extra year in terms of inflation, coupled with unforeseen additional costs has resulted in a funding gap emerging on each scheme. (Please see sections 2.2 and 2.4).
- 1.9 At the outline design stage it was anticipated that the Hartham leisure centre refurbishment would be a phased construction in order to keep as much of the facility open as possible during the construction period, however the demolition of the existing gym and studio facilities to create the new extension has meant that this is not viable, and therefore an alternative solution has been identified.
- 1.10 It is proposed that temporary gym and studio facilities will be provided during the construction phase, which will last approximately one year. These facilities can be achieved in a

separate temporary structure and can provide similar capacity to that currently offered.

- 1.11 In addition, through phasing and an extension to the programme it has been possible to keep the pool facilities open for the majority of the construction process, other than a period of approximately 3 months during which works will be undertaken in the pool hall.
- 1.12 These temporary facilities and pool phasing incur additional costs; however they provide an important continuity of service to the community and have a reduced negative impact on the business. During the pool closure customers will be relocated to other local pools wherever possible.

Sustainability

- 1.13 The main contractor, Willmott Dixon, hold a Queens Award for Enterprise for Sustainable Development (2019) and are the only contractor to hold the Carbon Trust Standard, and as an organisation have been Carbon Neutral for 6 years running.
- 1.14 Energy and water conservation have been at the forefront of the design process, and some examples include:

Grange Paddocks – Designed Energy Sustainability Features

- A Combined Heat and Power (CHP) system is proposed which is a highly efficient process that captures and utilises the heat that is a by-product of the electricity generation process. By generating heat and power simultaneously, a CHP system can reduce carbon emissions by up to 30%. This system will generate heat for the hot water production and some of the heating and pool heating. Electricity produced will be consumed by the building or fed back into the grid.
- Air Source Heat Pumps (ASHPs) will also contribute to the reduction of heat energy and carbon emissions from the building. They will be used to provide heating to some of the ventilation systems and for space heating in studios and

fitness suites. Some spaces such as the gym require cooling all year round. In this case the heat rejected from the gym is recovered in the ASHP system and used to heat other areas.

- Thermal insulation will be significantly better than that required by Part L of the building regulations in terms of glazing, floors, walls and roofing.
- High efficiency air handling with best-in-class in-built heat recovery with an effectiveness of 95%; significantly better than building regulations.
- Ventilation will be demand-controlled to minimise the over provision of ventilation.
- Fan energy consumption accounts for a significant proportion of electrical energy consumed in air handling systems, and ductwork has been designed to achieve low resistance and equipment with highly efficient electric motors and fan assemblies.
- Highly efficient pool water treatment plant; with smart controls to optimise water quality while minimising water and energy consumption.
- High efficiency pool water circulation pumps with variable speed drives that adjust for demand.
- Retractable, insulated pool covers to minimise evaporation and heat loss.
- Low-water consumption sanitary fittings and showers.
- Luminaires will exceed the minimum required lighting efficacy, and intelligent controls will dim lighting in response to increased daylight or absence of people.

Hartham – Designed Energy Sustainability Features

The opportunities for this refurbishment project are less than those for a new building; however examples include:

- The thermal insulation of the new extension will be significantly better than that required by Part L of the building regulations in terms of glazing, floors, walls and roofing.
- Reducing heat loss and energy consumption using, for example, thermal imaging to identify air breaches.

- Replacing poorly performing air handling plant that serves the changing rooms with plant with efficient heat recovery.
- Ventilation for the dry changing and new extension will be demand-controlled to minimise the over provision of ventilation.
- Luminaires in refurbished and extension areas will exceed the minimum required lighting efficacy, and intelligent controls will dim lighting in response to increased daylight or absence of people.
- Low-water consumption sanitary fittings and showers.

1.15 Notwithstanding the current design features, additional energy saving opportunities have been identified which, subject to additional funding being approved, could be incorporated into both leisure centre projects. These are covered in section 2.9, and the enhancements support the council's climate change policy principles, approved by Executive in February 2019.

Procurement

- 1.16 Members will recall that the original intention was for the two leisure construction projects and the leisure operating contract to be tendered collectively through a single Design, Build and Operate and Maintain (DBOM) procurement route.
- 1.17 The DBOM procurement process went live in May 2018 and the initial Supplier Questionnaire (SQ) stage closed in June 2018. Having reviewed the market position, and in the context of the sensitivities of the Green Belt locations of the two construction projects (and in the case of Hartham Leisure Centre its location within a conservation area); a change of procurement method was agreed at Executive in July 2018.
- 1.18 The 'design & build' aspects of the previous DBOM project were brought under council control to replace the DBOM approach that would have seen this project led and delivered by one external consortium. The cessation and separation of the DBOM into two entities; the 'design & build' and the leisure operating procurement with each one starting again, led to a

delay in the programme. The separate design and build process and the leisure operating contract procurement re-commenced in October 2018.

2.0 Report

2.1 The tables in the report below set out a summary of the cost changes on both schemes.

Hartham Leisure Centre

2.2 An additional **£1.558m** is required to undertake this scheme, and key items to highlight include:

- Inflation - £553k
- Temporary gym and studio facilities to ensure a service to the community during the construction phase of approximately one year - £358k
- Phasing to enable the pool to be kept open for the majority of the construction period - £120k
- Upgrades / additional capacity to the electrical and gas services - £170k
- Building Plant (mechanical and electrical upgrades) - £200k

The additional costs are offset by some value engineering savings on the designs of £73k.

A summary of the updated cost plan can be found below:

HARTHAM	£000	TOTAL £000
Client side fees budget	270	
Construction Budget	6,843	
S106 contribution	75	
Current Approved Project Budget		7,188
Cost Changes Since Budget Stage		
Inflation to first quarter 2020 start on site	553	
Incoming services upgrades, plantroom and services upgrades, cladding to the external plant room.	600	
Temporary gym/studio and phasing to keep the pool open during works	478	

Reduce building height, internal modifications etc	-73	
Total Cost Changes Since Budget Stage		1,558
Current Total Project Cost (excl VAT)		8,746
Additional funding required (excl VAT)		1,558

2.3 It is proposed that funding from opportunities including future s106 receipts is identified e.g. the District Plan identifies a minimum target of 950 new homes in Hertford. New Homes Bonus funding will also be considered and officers will explore other possible funding routes. The balance of the funding required is to be achieved via Public Works Loan Board (PWLB) borrowing.

Grange Paddocks Leisure Centre

2.4 An additional **£1.024m** is required to undertake this scheme where the additional cost of inflation is £1.741m, offset by value engineering design savings of £893k.

A summary of the updated cost plan can be found below:

GRANGE PADDOCKS	£000	TOTAL £000
Client side fees budget	430	
Construction Budget	21,568	
S106 contribution	200	
Current Approved Project Budget		22,198
Cost Changes Since Budget Stage		
Inflation to first quarter 2020 start on site	1,741	
Upgrade works to bridge	100	
Design economy savings including reduced quantity / specification of curtain walling and internal screens	-490	
Capping the 3G pitch in lieu of excavation and disposal of existing material	-893	
Total Cost Changes Since Budget Stage		458
Additional Contingency requirement		
Additional 2.5% contingency required due to risks associated with archaeology and 3G pitch location	566	
Total Additional Contingency Required		566
Current Total Project Cost including additional contingency (excl VAT)		23,222

<i>Additional funding required (excl VAT)</i>	1,024
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- 2.5 As per Hartham, it is proposed that funding from opportunities including future s106 receipts is identified e.g. Bishops Stortford South, plus New Homes Bonus funding, and other funding routes will be explored. The balance of the funding required is to be achieved via PWLB borrowing.
- 2.6 The report sets out the additional budget required in order to deliver the agreed leisure schemes. The majority of the funding required is due to inflation and unforeseen additional costs such as the provision of temporary facilities and the need for additional utility services capacity.
- 2.7 The projects include contingency of approximately 5% for both schemes. This is the minimum that is deemed to be acceptable as the project moves into detailed design and then the construction phase; both of which have the potential to call upon the contingency.
- 2.8 Value engineering reviews will continue to be applied to both schemes wherever possible to deliver the buildings at capital costs that represent good value, without affecting the quality of the customer experience or the revenue generating opportunities.

Additional Energy Sustainable Features

- 2.9 Furthermore, as indicated in section 1.15, there are additional sustainable energy opportunities that could be incorporated. Such investments will further help to reduce energy consumption and CO2 emissions, and support reduced energy costs. These are currently being investigated in more detail and examples include:

Hartham

- Over-roofing of the existing roof structure to improve the thermal insulation and reduce heat loss
- Photovoltaic panels onto the extension

- Replace the ventilation plant and boilers
- Replace electrical distribution boards
- Replace existing lighting with LED
- Install a lighting control system

Grange Paddocks

- Photovoltaic panels on the roof structure

2.10 Estimates for these and other options are being developed and at this stage it is proposed to set-aside up to £1m for improvements at both facilities. Examples of pay back periods include 4 to 5 years for Combined Heat and Power (CHP) and circa 15 years for photovoltaic panels.

2.11 it is proposed that funding from opportunities including future s106 receipts is identified, plus New Homes Bonus funding, and other funding routes will be explored. The balance of the funding required is to be achieved via PWLB borrowing.

2.12 It is recommended that authority be delegated to the Head of Strategic Finance and Property to determine the specific features, taking into account factors such as energy efficiencies, current condition and payback periods. This approach will ensure that timely decisions can be made without adversely impacting on the programme timescales.

Conclusion and Next Steps

2.13 It is more than two years since these schemes were costed. The effect of a higher than forecasted inflation rate, plus assumptions that had to be made prior to detailed survey work have accounted for additional unforeseeable costs.

2.14 Cost-certainty increases at each RIBA stage and the outline costs have subsequently been updated following detailed building surveys, design work and scope changes, for example the need for temporary facilities. These aspects, together with the time delay between assumed and currently projected construction commencement has led to the budgetary gaps

identified in the report.

- 2.15 In a worst case scenario, should the total sum being requested (£3.582m) need to be borrowed from the PWLB, the cost of financing would still be affordable, taking into consideration the surplus generated by a new leisure operating contract.
- 2.16 The additional funding will allow the schemes to be completed without major compromise; safeguarding the health and wellbeing opportunities for the community, an enhanced leisure offer and quality of service, and income generation that will result in an annual management fee paid to the council.
- 2.17 If additional funding is not agreed, the scope of the schemes will have to be reduced, potentially quite drastically, at the expense of the council's objectives. There would be additional re-design / project costs plus the loss / reduction of some services and features on both leisure projects.
- 2.18 In addition, there is an opportunity to improve the energy sustainability at both facilities, over and above what has already been designed, subject to the approval of additional funding. Such investments will reduce the operating costs of the facilities and will support the council's ongoing commitment towards reducing energy and CO2 emissions in this era of increasing environmental challenges.
- 2.19 This is a once-in-a-generation opportunity to provide the community with improved leisure facilities that will enhance their health and wellbeing and meet the current and future demands for leisure services.

3.0 Implications / Consultations

- 3.1 Information on any corporate issues and consultation associated with this report can be found within Essential Reference Paper 'A'.

Background Papers

Report no. 67 to Executive 27 June 2017:

<http://democracy.eastherts.gov.uk/ieListDocuments.aspx?CId=119&MId=2883&Ver=4&J=1>

Report no. 114 to Council 18 July 2017:

<http://democracy.eastherts.gov.uk/ieListDocuments.aspx?CId=158&MId=2877&Ver=4&J=3>

Report no. 100 to Executive 17 July 2018:

<http://democracy.eastherts.gov.uk/ieListDocuments.aspx?CId=119&MId=3379&Ver=4&J=2>

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