

Dolphin Centre Replacement – Financial Update

Relevant Portfolio Holder	Cllr Peter Whitaker Cllr Geoff Denaro
Portfolio Holder Consulted	Yes
Relevant Head of Service	John Godwin
Wards Affected	All
Ward Councillor Consulted	No

1. SUMMARY OF PROPOSALS

The report outlines the final contract sum proposed by the preferred building contractor for the replacement of the Dolphin Centre and the request for additional funding to support the increase in associated costs

2. RECOMMENDATIONS

2.1 The Cabinet is asked to RECOMMEND to the Council that:

2.1.1 That the Capital Programme for 2016/17-2017/18 be increased by £700k to £13.7m to progress the scheme.

And:

2.1.2 (a) That the funding of £700k is released from balances in 2016/17.

Or

2.1.2 (b) That the funding is secured through borrowing

3. KEY ISSUES

Background

3.1 As members will be aware in July 2014 the Council agreed to replace the ageing facilities at the Dolphin Centre with a new site to be built on School Drive.

In Jan 2016 following a successful funding application to Sport England members approved an increase of £1.5m in the overall capital budget available to provide additional facilities for local residents. The current Capital Programme is £13m for the entire replacement centre.

3.2 Over the past 5 months officers have been working with the preferred contractor as part of a 2 Stage tender process to get to a point where an agreed contract sum has been reached and the Council receives the contractors offer for the works.

- 3.3 As reported to members in Jan 2016 initially work in this area progressed well no concerns had been expressed by the contractor in relation to the delivery of the project within the funding level approved.
- 3.4 Unfortunately in the later part of the 12 week 2 Stage process (around weeks 10 & 11) concerns began to emerge that the cost plan was becoming under pressure as a result of unforeseen additional costs emerging above those included within the key assumptions contained the 2014 report. In addition there has been a rapid increase in building costs as the market has now picked up over the past 6 months and there has been a change in initial approach taken by the main contractor to their internal costs and approach to risk.
- 3.5 Following the contractors assessment of these cost pressures an initial proposal was submitted at approximately £2.5m over the currently approved budget. These were immediately rejected as being unrealistic and not reflective of the costs associated with the scale or scope of the works or the market at that point.

The project management team has undertaken an in-depth review of the contractor's proposals including a full detailed investigation of over 50 work package prices submitted by the main contractors supply chain. This review highlighted several areas of concerns that required further discussion both around the packages and the approaches that were being taken by the proposed contractor.

- 3.6 Following the initial overview, officers, the Design/Project Management team and Commercial Teams have undertaken a number of meetings and cost review exercises with the contractor, which although very challenging at times have been positive and resulted in a contract sum offer on the 4th May 2016 of £10.3m. This is a £619k additional cost to the initial estimate. When added to other costs relating to the development (e.g. purchase of land, contingency) the revised total cost to the Council of the replacement centre would be £13.6.
- 3.7 In addition this would result in the available contingency held by BDC for the project being reduced to 1.5% or £154k. This amount is considered to be insufficient and officers would propose that this is increased to £235k (2.27%) to enable a more realistic contingency to support the project.

Taking into account the impact of the negotiated additional costs the revised capital project funding required to enable the replacement centre to be developed is £13.7m.

- 3.8 As noted at 3.4 there have been a number of additional cost pressures that were not anticipated in July 2014 and were shown as key assumptions and/or project risk. These are detailed below:

Unusual Ground Conditions: The project and cost plans had assumed throughout the feasibility study period that the ground conditions would be suitable to develop a new build leisure centre with limited remedial costs. However, following the removal of trees, demolition of Blackmore House, detailed site surveys and inspections, the groundwork packages have highlighted additional costs associated with the remediation/preparation of the site for construction works.

The overall site levels have proved to be challenging to work with due to the gradient and makeup of the materials on site. This has resulted in the design of the car park being split across two levels as opposed to a single level flat car park to provide a safe, DDA and building regulation compliant layout. This has unfortunately increased the amount and scope of the foundation solution and retaining walls required and a revised cut and fill model is needed to make up the land once the construction phases are progressed.

An option was considered for utilising the future development land to reduce the overall impact of the levels by changing the car park layout and design. However, it was discovered that the loss of future development land would heavily impact the business model as it would reduce the land value that would be received by the Council.

Retaining Wall Costs £'000	Cut & Fill Costs £'000
251	195

Utility Supplies: Within the original cost plan prepared in July 2014 it was assumed that existing utility supplies and services were sufficient and there would be no large scale costs associated with the site connections.

As the design progressed and the power requirements became clearer we were notified by Western Power that there would be a need for a new substation for the centre as the current substation installed approximately 15 years ago did not have sufficient capacity left within it following recent developments in the area. Furthermore we were informed that this substation would need to be placed a minimum of 9.5meters away from building based on recently revised guidelines which again increases costs.

Severn Trent water have advised that the existing mains supply will require upgrading to meet the needs of the centre. This is due to the original building supply being fed from Well Lane at the rear of the site

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which would no longer be practical given the site of the new car park. Members should be aware that the main supply upgrade in the highway is to be paid for by Severn Trent, with BDC's additional cost being incurred to connect to the new main.

Western Power Cost £'000	Severn Trent Costs £'000
75	3

Inflation - During the inception of the project an inflation allowance was allocated of 7.1% for the period up to midpoint of construction. The actual impact of inflation is now circa 9.8% based on the upturn in the construction sector in general. This is as a result of the increased cost of materials together with the large number of Swimming Pools and Leisure Centres that are being replaced across the Country. Many of this were initially built in the 1960's and 1970's using concrete construction method, this has led to the supply chain being able to be much more assertive in the market place and charging premium rates for specialist services.

Description	Budget £'000	Actual £'000	Difference £'000
Inflation Allowance	511 (7.1%)	794(9.8%)	283

Total Excluded Costs

Area	Cost £'000
Retaining Wall	251
Revised Cut/Fill	195
New Substation	75
Water Supply	3
Inflation Impact	283
Total	807
Overhead and Profit @ 3.5%	28
Design & Build Contingency @ 2.5%	20
Total	855

Members will note that the above costs are higher than the additional funding request at £700K, this is due to the additional saving that have been generated on other works package and thus the full amount of £855,000 is not required to progress the scheme.

- 3.9 As members will be aware this project is part funded through a Sport England Strategic Facilities grant, as such the team working with us have been part of this process and have played a full role in the work that has been undertaken. We can confirm to elected members that the costs involved in this project are accepted by Sport England and the Project Team in that they reflect the current market position with regard to the construction of sports and leisure facilities.

The square meter rates we have received reflect the recent changes in the market place and the large number of Sports & Leisure Centre currently under construction or about to commence.

It is understood that Sport England is currently involved in 50 such projects across the country. MACE, our project managers, are working on over 5 such schemes at present and we have been informed that between the middle of May and June 16 at least 4 new sites will be opening.

All of these factors contribute to the increased inflation costs in this sector and the need for additional funding.

The following table shows the changes in square meter rates over the period of this project:

Date	Square Meter Rate for Wet & Dry Facility – £	Difference – £
July 2014 – Project go ahead & assumed rate	2,420	150
April 2016 – Contract Submission	2,570	230
May 16 – Current assumed rate for new projects	2,800	N/a

- 3.10 In order to secure the current offer from the contractors and avoid any additional inflation costs that are predicted with a particular focus on steel prices, the Council need to be a position to sign the construction contracts as a matter of urgency, as package costs will only be held for a limited period.

Therefore, this report has been brought back to members for their urgent attention as soon as possible in order to confirm the contractors offer before it is subject to further inflationary pressure.

Although the increased cost of the replacement centre is frustrating, these issues have been very robustly challenged by the project team and responded to by the main contractor in a positive manner.

In addition following the in depth review of the proposed costs and an exercise to review the potential cost that the contractor who came second at stage 1 of the procurement exercise could offer, we are comfortable that the offer provided is robust and offers good value for money to BDC and Sport England and that they should remain as the preferred contractor.

- 3.11 With regard to the overall programme the project was scheduled completion in August 2017 with an indicative opening in September 2017. Given we have suffered from a delay currently of 8 weeks due to the contract fee reviews and then need to update members on this matter, the programme will be reviewed again subject to member agreement to progress with an indicative opening of the new site being Autumn 2017.

Financial Implications

- 3.12 As noted previously in this report and as members will be aware the budget set for the replacement of the Dolphin Centre was £11.5million from BDC and £1.5million form a Sport England grant to give a total project cost of £13 million.
- 3.13 The Council's £11.5 million funding was made up as follows:

Area	£'000
Prudential Borrowing	9,600
Land Receipt	1,800
Balances	100
Total	11,500

- 3.14 As covered in Section 3.7 the contractor's price submission and the need to increase the projects contingency fund means that there is a need for an additional £700,000 to be made available for this project to progress.
- 3.15 Following a review of the facility mix agreed within the January 2016 Cabinet Report and the submission of the contractors financial proposal, officers requested that the prudential borrowing position be revisited as part of a final review of the business case. The resulting income levels now anticipated from the larger site to be provided have increased the level of prudential borrowing based on costs of approximately £436k for the provision of the Dolphin Centre.

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Final Business Case – May 2016	£'000
10 year forecast (Average net revenue)	92
Improvement compared to current revenue position	528
Prudential borrowing potential at May 2016 (based increased facility mix)	10,565
Original borrowing approved at July 2014 (based reduced facility mix)	9,536
Difference to original assumed borrowing	1,029

- 3.16 Based on this revised level of prudential borrowing there would be no detrimental impact on the Medium Term Financial Plan should the income levels be achieved as expected.
- 3.17 The other opportunity to fund the level of addition cost would be through releasing general fund balances. The balances position is currently £4m and, taking into account the approved draw down as part of the current 3 year financial plan, further reduction of £700k would leave approximately £2m. This would be subject to any additional draw down or increase as a result of the 2015/16 financial outturn.
- 3.18 Members should also be aware that officers will also continue to work with the design team and main contractors prior to signing a contract (should the budget increase be agreed by members) with a view to transferring any additional saving that can be achieved into the contingency fund in order to ensure no further changes will be required to the overall cost plan.

At the end of the project any contingency that was not required for the project will be returned to balances.

- 3.19 Current costs associated with bringing this forward to this stage excluding land purchase costs stand at £1,509 million. As covered in the risk section of the July 14 Committee Report, should the Council not progress with the project past this point, these costs would need to be funded from balances and therefore there would be additional challenges to the Council to ensure the financial plan of the Council is balanced in the longer term.

Legal Implications

- 3.20 There are no direct legal implications contained within this report over and above those already covered in the Committee Reports of July 2014 and January 2016.

Service / Operational Implications

- 3.21 There are no direct service/operational implications contained within this report. The contractors offer is based up an element of Value Management being undertaken to deliver the contract sum. However this will not change the scope of the project and/or have a negative impact on the quality of services to be provided.
- 3.22 Members should be aware that should they not wish to agree to the additional funding associated with this project that the procurement of the Project and Design Team allows for BDC to terminate the agreements at this stage in such circumstances on a cost incurred up to this point basis.

Customer / Equalities and Diversity Implications

- 3.23 There are no direct Customer, Equality or Diversity Implications contained within this report. However the examples provided in the initial report have all been designed into the final layouts to ensure the services on site are as diverse and user friendly as possible.

4. RISK MANAGEMENT

There are no direct risks associated with this report over and above those contained within the initial information provided to members. Should the construction phase progress a construction risk register will be created to supersede the design risk register that is currently in use.

5. APPENDICES

None

6. BACKGROUND PAPERS

Dolphin Centre Replacement Report – 2nd July 2014
Dolphin Centre Replacement Report – 6th Jan 2016

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