

Report to the Cabinet

Report reference: C-040-2022/23

Date of meeting: 13 March 2023

Portfolio: Contract and Commissioning – Cllr. N Avey

Subject: Construction of the new Epping Leisure Centre

Responsible Officer: James Warwick (01992 564350).

Democratic Services: Adrian Hendry (01992 564246).



**Epping Forest
District Council**

Recommendations/Decisions Required:

- 1) To agree the delivery of the new Epping Leisure Centre project and inclusion of the additional capital investment of £8.1 million within the Cabinet's Budget and Medium-Term Financial plans.**
- 2) To agree that Places Leisure appoint Pellikaan Construction Ltd to construct Epping Leisure Centre.**

Executive Summary:

In January 2021, Cabinet agreed the Capital Programme proposal for the new Epping Leisure Centre at Bakers Lane and the delivery of the new Epping Leisure Centre by the Council's incumbent contractor, Places Leisure. The new Epping Leisure Centre is to be delivered under the current Design, Build, Operate and Maintain (DBOM) contractual arrangement for Places Leisure to build the centre and operate it.

The new Epping Leisure Centre is to replace the existing Epping Sports Centre that has reached the end of its operational life and is expensive to operate and maintain.

Qualis Ltd obtained Planning Permission for the new Epping Leisure Centre in October 2021 as part of a wider development of five sites in Epping. Council officers have been working with Places Leisure for the procurement of the leisure centre and with Qualis in a strategic delivery partnership occupying the role of Infrastructure Manager for the coordination for the delivery of all five sites in Epping.

The new Epping Leisure Centre is recognised to bring financial and community benefits to the district and will provide a main swimming pool, a learner pool, sports hall, health and fitness gym, and studios. Epping Leisure Centre will provide a vital community asset that will provide widely accessible opportunities for local communities to get involved in sport and physical activity, meeting the needs of the people in the places where they live. The facility will give local people access to vital community facilities and tackle health inequalities in an affordable and accessible way. The new Leisure Centre is crucial to sustain leisure provision at the level required to meet local and future demand.

The new Epping Leisure Centre will bring employment opportunities as part of the construction through apprenticeship opportunities. Once complete and open the leisure centre will require staff to operate and maintain which will present further employment opportunities to local people.

The new leisure centre will use proven modern technologies and concepts to increase the sustainability performance of the building and will be extremely energy efficient. The Council expects a 58% improvement in carbon emissions from the operation of the new leisure centre when compared against notional leisure centre buildings. The new leisure centre would provide a zero-carbon development and is a major step in helping the Council achieve its aim of becoming a carbon neutral District by 2030.

Feb 2023

Reasons for Proposed Decision:

The construction of a new, modern leisure centre in Epping will work towards achieving the aim of the corporate Health & Wellbeing strategy, which is that Epping Forest District residents across all demographics can lead healthy and fulfilling lives.

The strategic need for a new leisure centre has been documented in the current DBOM contract as the existing Epping Sports Centre has reached the end of its building life and is inefficient to operate. A new leisure centre will be more energy efficient and support the Council's aim to become carbon neutral by 2030.

Other Options for Action:

Delaying the project or any changes to the agreed project delivery will adversely impact the regeneration of the Epping sites under progress and any changes will require further consultation and formal agreement with Qualis Ltd.

Furthermore, existing Epping Sports Centre has reached the end of its designed life and will require significant investment to keep the sports centre operational. If the project cost is not viable, then it could be cancelled, and this would result in abortive costs incurred for the professional fees and surveys paid to date. Therefore, any delay or change in the agreed project delivery is not recommended.

Report:

1. The project will be procured through a fixed-price design & build contract between Places Leisure and the building Contractor. A two-stage tendering process was carried out to facilitate early collaboration with contractors to ensure design and cost certainty. The first stage comprised of a Selection Questionnaire (SQ) via an open tendering process to select contractors best placed to bid for the project. Five submissions were received, and through an evaluation process with Council Officers and Places Leisure, four contractors were short-listed to remain in the competition and qualify to proceed to the second stage of the tendering process.
2. The second stage of the tendering process involved the Invitation to Tender (ITT), where the four short-listed contractors were invited to provide bids for the construction of the new leisure centre. Although the short-listed contractors had confirmed their interest in bidding for the new leisure centre, three out of four contractors withdrew during tendering process primarily due to the risk a Design and Build Tender puts on the Contractor in the current market. This is due to the extreme volatility in the market at present and the elevated risk levels this brings to a project of this nature. The reasoning behind this is the level of risk exposure to the contractor on a design & build procurement process, where the contractor would be responsible for the risk of design development where the current market is pricing risk at unprecedented levels, as well as holding their commercial offer for a project which starts on site in September 2023. One tender submission was received from Pellikaan Construction Ltd.
3. The importance for securing Value for Money through procurement is essential and the tendering process has been carried out through fair and open competition. A single bid tender submission received may imply an absence of real competition during the procedure, however, following a review of the tender price by consultants, it was ascertained that the bid was compliant to the tender instructions and competitively priced according to the market research and benchmarking exercise carried out, and provides assurance that it demonstrates Value for Money.
4. Press and Starkey, working as independent cost consultants on this project carried out a benchmarking exercise to compare the tender offer with both their own pre-tender estimate and other recent tenders for similar projects that they are currently engaged on. The costs for the comparative projects are based on current/active tenders with very similar delivery timeframes as the for the Epping Leisure Centre and are therefore comparable in terms of inflation allowances. Whilst the design and layout of the comparison buildings is different to that of the Epping Leisure

Centre, the range of facilities provided are broadly similar. Conversely the Leisure Centre at Epping is constructed on a constrained site requiring the construction of extensive basement facilities and retaining walls to deal with the significant level differences. Both factors have the effect of increasing the overall rate per m2 for the construction.

5. Overall, the unit rate of £4,759 / m2 from the Pellikaan Construction Ltd tender offer compares well with the other concurrent tenders that were used in the benchmarking exercise and with the pre-tender estimate which was prepared at the end of 2021. Therefore, it is recommended by Press and Starkey that the Pellikaan Construction Ltd tender offer is competitive in the current marketplace and offers value for money compared to other similar benchmark projects. The project and figures used in the benchmarking exercise are current 'live' tender offers and are therefore commercially sensitive.
6. The tender submission was evaluated via a moderation meeting with Council Officers and Places Leisure. Pellikaan Construction Ltd's submission was agreed to be a good tender and scored 43.27/50 quality score. Pellikaan Construction Ltd was the appointed contractor for the construction of the Waltham Abbey Leisure Centre and has established good working relations with the Council and Places Leisure. Quality and standard of their work, based on the Waltham Abbey Leisure Centre, is of good standard.
7. Re-tendering the project would not be suitable due to current market risks and even after the retendering, we cannot guarantee that more than one tender response will be received. Re-tendering would also delay the programme of the project which is not advised considering the five sites for the Epping Town centre redevelopment projects are linked and would have detrimental effects on those projects.
8. At its Cabinet meeting in January 2021, the estimated project cost for the new leisure centre was estimated as £25 million and the capital budget was approved accordingly. This was based on an initial cost plan dated November 2020 to estimate the project budget.
9. Pellikaan Construction Ltd's tender submission value was £25,963,206. EFDC Officers and Places Leisure carried out arithmetical and technical checks on the tender submission and adjusted the tender to include exclusions made within the tender. The adjusted tender sum (construction cost) is £26,297,841. The construction cost is the amount to be paid to the contractor for the construction of the leisure centre. Pellikaan Construction Ltd believe there are good opportunities for further budget savings by optimising the internal and external design whilst keeping the required functionalities and quality without compromising the design intent. These opportunities will be pursued once the contract is awarded.
10. A project cost plan has been prepared to include the construction cost plus fees of design professionals, infrastructure, contingency and client direct items such as equipment. The estimated total Project Cost for the new Epping Leisure Centre is £33.1m, see Appendix 1 for the project cost plan.
11. Since the initial budget estimate in Nov 2020, there have been unprecedented levels of construction cost and inflation increases. Higher interest rates and slow economic growth has caused delays in construction and has alleviated labour and materials shortages. The shortage of materials, inflation, energy prices and war in Ukraine are all factors which have increased construction costs. There have also been additional requirements due to design development, such as Ground Source Heat Pumps (GSHP), Electric Vehicle (EV) charging points and increase in building footprint. A summary of the approximate additional costs is displayed in Table 1.

Table 1: Epping Leisure Centre Additional Costs.

Description	£	Additional Cost £	Comments
Nov 20 Cost Estimate	25,000,000		
Building Cost		3,550,000	Construction materials cost increases and design development i.e., addition of Ground Source Heat pumps.
Inflation		450,000	Increase in inflation.
Contractor's Risk		1,030,000	Increased risk in construction.
Client/Project Contingency		400,000	Uplift due to increase in construction cost.
Fees		1,150,000	Planned cost (previous allowance based on percentage of estimated construction cost).
Equipment		700,000	Provisional increase due to cost of equipment and lack of supplies.
Infrastructure		820,000	Increase in statutory services costs. Includes Highway improvements and EV charging points.
Total Additional Costs	8,100,000		
Estimated Project Total	33,100,000		

Notes:

- All costs exclude VAT.
- Section 278 bond costs excluded from the capital cost as they are returnable at the end of the works.

12. Capital expenditure must be funded, and at this point it is assumed that the Council will have to borrow to achieve this. The consequences of this are twofold. Firstly, interest will be paid annually on the borrowing, and secondly, there will be a need to set aside a statutory revenue provision each year to repay the debt (known as Minimum Revenue Provision or “MRP”).

13. The rate of interest payable and MRP repayments are based on PWLB rates as at 20th January 2023; these will be subject to change because the rates may be different at the time the leisure centre is completed and financing is necessary. The estimated revenue costs for the previously approved £25 million budget are already included in the Councils Medium Term Financial Plan. The estimated annual revenue cost for the additional capital spend (£8.1 million) on this project is £427,930 and is summarised in Table 2.

Table 2: Revenue Consequences of Capital Investment.

	Estimated Revenue Cost £
Borrowing Costs - Interest	363,690
Minimum Revenue Provision (MRP)	64,240
Total Cost of Capital Investment	427,930

14. In terms of the construction programme, the tender submission is based on a start on site in August 2023 and completion April 2025.

15. The leisure centre is expected to be a modern, sustainable and energy efficient building. The new leisure centre is targeting to achieve a BREEAM excellent rating. The BREEAM certification ensures an efficient sustainable building and shows that the District Council is committed to sustainable, efficient, high-quality environments for its residents and visitors.

Resource Implications:

The approved 2022-23 Budget and Medium-Term Financial Plan includes a project allowance of £25m. Additional capital investment will be required to be able to deliver the project, which the current forecast capital cost is £33.1m.

The management fee from the new facility is still to be determined, the feasibility report previously undertaken suggest an annual management fee of £275,000. This will require further work to determine and agree with Places Leisure, as this fee was pre-pandemic and when energy costs were lower.

Legal and Governance Implications:

The Council has the power under Local Government Act 1976 to provide recreational facilities within its area and a duty to take such steps as it considers appropriate to improve the health of the people in its area. Further legal work on the variation to the DBOM contract is ongoing.

Safer, Cleaner and Greener Implications:

The new Epping Leisure Centre aims to achieve BREEAM excellence, which will result in an energy efficient building and support the Council's commitment to reduce carbon emissions and improve air quality. The new centre will replace the aging Epping Sports Centre and provide residents with new leisure facilities, increasing the health and wellbeing provisions for residents.

Consultation Undertaken: Public consultations were carried out by Qualis as part of the Planning process.

Background Papers: Cabinet report January 2021 and April 2021.

Risk Management:

Although the proposed construction contract is fixed sum, the construction total may vary due to fluctuations in provisional sum items. Similarly, project direct costs may vary due to fluctuations in provisional sums. Inflation is a key risk item as it has had an unprecedented effect on the construction industry.

Section 278 bond costs are excluded from the Capital Programme as they are returnable at the end of the works, however, there is a risk of the bond not being returned for example, if the works are failed to be completed.

Equality Impact Assessment:

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. The equality impact assessment is provided in Appendix 2.