

Briefing Note for Cabinet
16th April 2020

White Oak Leisure Centre (WOLC) project: impact of Covid-19

1. In light of Covid-19, the WOLC project team has been in ongoing dialogue with Alliance Leisure Services Limited (ALS), ISG and Sport and Leisure Management Limited (SLM).
2. Works on site are not due to commence until 26 May 2020. However, it is clear at this early stage that there will be a cost and likely programme impact as a result of restrictions that have been put in place by the Government for the construction industry. Government has been clear that the construction industry should continue to work, but must do so within the safety guidelines issued.
3. As part of the project's risk assessment, the project team has also considered the impact of Covid-19 on the project's financing and the contract with the preferred leisure operator (SLM).
4. The options available for consideration are:

Option 1: Delay the project

Option 2: Progress the project as planned

Option 3: Terminate the project

5. Option 1: Delay the project

This option is based on delaying the site start (26 May 2020) and details the inflation impact on the construction costs only. This is based on the Building Cost Information Service (BCIS), General Building Cost Index guidance, forecast as at 31 March 2020.

The overall impact on the development cost is calculated on a quarterly basis sliding scale. This will lead to construction inflation implications the first quarter of an estimated £190,696 - this excludes professional fees and other costs. The Council would take on these costs.

If the site start was delayed by a further quarter, the inflation cost increase would be an additional £243,276. Again, the Council would be liable for this cost.

This will impact the overall programme timescales outlined in the Cabinet report. The Council has a contingency budget in place to support this cost, but the identified costs would significantly impact this budget.

6. Option 2: Progress the project as planned

A full assessment of risk has been undertaken, which would bring in safety measures to ensure all construction staff can work safely and that there is no risk to the wider community.

The contractors will start onsite as per the current programme on 26 May 2020 with Covid-19 control measures in place including additional welfare facilities, cleaning and Public Protection Equipment (PPE) and a compound cleaner and marshal.

This will cost the Council an additional £76,500 based on 52 weeks. After this period, ALS has agreed with ISG (the developer) that they will take on costs. However, at this stage, ALS has suggested that the control measures may only need to be in place for 12 weeks, therefore, the Council would be charged on a pro-rata basis.

This is likely to impact the overall programme timescales as the initial pace of construction work will be slower as a result of the control measures brought into play. Therefore, the Phase 1 of construction which is due to be completed by November 2021, may be put back by up to 12 weeks.

SLM (the leisure operator) has advised that they would wish the contract date to remain as per the current programme, but noting that there will be a delay to the centre opening (originally proposed for November 2021), which will create a 3 month loss of initial income. However, they have tasked their legal counsel and Regional Director to review the delay clause in the contract. Although any delay will impact the income for the first year, SLM consider it will be minimal, suggesting that a January/February 2022 opening would be preferable as the leisure industry always sees increased customer football/usage within the first few months of any new year.

Option 2 would impact the Council less financially and ensure the project is progressed. The Council has a contingency budget in place to support this cost.

The construction contractor and the preferred leisure operator are in favour of Option 2.

7. Option 3: Terminate the project

If the project is terminated, the Council would need to keep the centre open and operational.

Due to its age and condition, the existing centre has now reached the end of its serviceable life. Based on costs previously provided by the Council's Facilities Management team, it would cost in the region of £1.7 million over the next few years to keep the building running. This would purely be spent on remedial works to maintain the building.

The Council has already spent £550,000 (approved by Council on 26/02/19) as part of the Capital Programme to develop the new White Oak Leisure Centre scheme design, undertake site surveys and planning application submission to the pre-construction stage of Cost Certainty.

8. Funding sources

- 8.1 In regards to the construction interest costs, extending it by 3 months would be minimal in terms of interest costs, but the Council would need to review and update borrowing cost estimates at the time depending on lending and borrowing rates at the time we need to fund the construction phase.
- 8.2 The total borrowing position is unchanged from the position we have disclosed in the report (see point 55 in the report). The Public Works Loan Board (PWLb) borrowing interest rates change daily (they can go up and down), therefore the cost would be set on the day we borrow, but we do have some flexibility as to when we take the loan out.
- 8.3 Savills, who undertook the independent development appraisals, which have informed the capital receipts estimates within the report, have stated that their values remain unchanged, but there is material uncertainty over those values as a result of Covid-19.
- 8.4 Clearly, the market has never experienced an incident such as Covid-19 before. The lockdown on economic activity as a result of Covid-19 has led to an uncertain economic outlook and much of the property market has been shut-down. The lack of evidence of transactions in the market place has led to property valuations being issued with a warning that there is material uncertainty about the valuation. For example, the Council's property valuers, Wilkes Head & Eve, have issued such a warning on this year's property asset valuations on both commercial and residential properties. A bulletin issued by Savills entitled: "Coronavirus and the UK housing market", dated 26 March 2020, comments that residential values could fall by 5% to 10% on very thin transactions in the second quarter 2020 and that the outlook after that will depend on the state of the wider economy.
- 8.5 Therefore, as things stand, there is material uncertainty about the estimated capital receipts to be received from the Swanley developments and this will last for 3 months at least, possibly into next year. However, three out of the five sites (those that contribute c.95% of capital receipts) are not due to be delivered for another 2-5 years and the remaining two sites could be delivered slowly to see how things progress economically (the largest of these, 27-37 High Street, Swanley is not due to go to planning committee until May 2020).
- 8.6 To mitigate any risk, there will need to be careful development of the sites to maximise returns. The current funding model has some flexibility regarding funding sources but it should be recognised that any significant changes may have other impacts on the Council's finances.