

**WHITE OAK LEISURE CENTRE: NEW BUILD AND OPERATOR PROCUREMENT -
PROGRESS REPORT**

Council - 22 February 2022

Report of: Strategic Head of Property and Commercial

Status: For Decision

Also considered by:

- Cabinet - 10 February 2022

Key Decision: No

Executive Summary:

On 21 April 2020 Council granted approval for the construction of a new leisure centre and the demolition of the existing White Oak Leisure Centre. Works commenced on site in May 2020 and construction has taken place at a steady pace. The Council has demonstrated prudent financial and project management discipline on this project and has under originally planned circumstances incurred a total project cost variance of 2.18%. However, unforeseen abnormal site conditions were encountered during ground works, resulting in unexpected costs and delays to the envisaged programme. The new leisure centre is now due to achieve practical completion on the 11 February 2022. Despite unforeseen challenges the Council has avoided disruptions and has been able to keep the disruption to leisure services for residents in Swanley to an absolute minimum.

This report provides an update of progress made on the scheme and details of additional costs associated with the construction.

This report supports the Key Aim of: safe and caring communities, green and healthy environment and a dynamic and sustainable economy.

Portfolio Holder: Cllr. Peter Fleming

Contact Officers: Detlev Munster, Ext. 7099

Adrian Rowbotham, Ext. 7153

Recommendation to Cabinet:

That:

(a) recommendations (a) to (c) below are recommended to Council.

Recommendation to Council:

- (a) Notes the progress made on the scheme despite difficult market conditions associated with the Covid-19 pandemic and abnormal site conditions encountered and notes the Council's ability to minimise disruptions to leisure services for the local community.
- (b) Notes that due to unforeseen circumstances that additional costs associated with the construction of the scheme had to be incurred.
- (c) Approves an increase to the Capital Programme by up to £2,995,379 recognising that a significant portion of this amount is a risk assessed contingency and may not materialise.

Reason for recommendation: To allow completion of the new leisure centre and demolition of the existing White Oak Leisure Centre by providing additional funding for this important community resource in Swanley.

Introduction and Background

- 1 In 2020 Sevenoaks District Council (SDC) embarked on its largest project in over 30 years. The building work for the new White Oak Leisure Centre in Swanley began in May 2020. The new modern, energy efficient, bright and open facility will replace the existing leisure centre, which due to its age and condition had reached the end of its serviceable life.
- 2 The new leisure centre is being constructed adjacent to the existing White Oak Leisure Centre so that the existing leisure centre can be kept operational during construction. This will allow the Council to maintain continuity of leisure services for the local community.
- 3 The scheme is phased in three parts:
 - a) Phase 1 - Construction of the new leisure centre;
 - b) Phase 2 - Demolition of the existing leisure centre and construction of new car parking; and
 - c) Phase 3 - Construction of enabling residential development on the site of the demolished leisure centre to partly fund the new leisure centre.
- 4 The construction project operates a robust formal change control process managed by an external contract administrator with close oversight by the Council's internal project management team. All proposed changes and alternative options are appraised in terms of cost, time and quality implications. While these appraisals are undertaken collaboratively with the contractor, both the contractor administrator and the Council undertake further independent detailed investigations where possible, prior to making a project decision.
- 5 To date there have been several Change Instructions administered under the contract and many of these changes were covered by contingency allowances.

Update on Progress of the Development Scheme

- 6 On 13/02/2020 the Development Control Committee approved a hybrid planning application (reference 19/02951/HYB) for:
 - Full application for a new leisure centre and associated parking at White Oak Leisure Centre site in Swanley
 - Outline application for enabling residential development on the site of the current White Oak Leisure Centre
- 7 SDC entered into a Development Management Agreement with Alliance Leisure Services (ALS) for the construction of a new leisure centre and demolition of the existing leisure centre; and a Leisure Operating Contract with Sport and Leisure Management (SLM).

- 8 The construction contractor, ISG, was appointed and started works on site on 26/05/2020.
- 9 Works to date include: site set up; archaeological investigation; sewer diversion; piling; soakaways and voids mapped and remedial works; ground beams; drainage; pool construction; steelwork superstructure; roof and wall cladding; brise soleil; flooring; block and brickwork; drylining; lift shafts and stairs; mechanical and electrical works, and fitting out the new premises with equipment. See Appendix A showing current pictures of the Leisure Centre.
- 10 Due to the Covid-19 pandemic the contractor has implemented additional site control measures in accordance with construction industry guidelines including engaging with their supply chain regarding labour and material issues, social distancing, increased hygiene and welfare facilities.
- 11 Planning conditions have been discharged, Building Control has undertaken regular site inspections and the Council's Clerk of Works has issued regular reports.
- 12 The contractor ISG has also prepared and implemented a social value plan. This has included donating PPE to a local swimming club, installing top soil and seeding an outdoor play area at Oaks Day Nursery and supporting the charity 'We Are Beams', which supports over 450 families. In addition to this, ISG has installed bat boxes, removed rubbish and weeds and pruned trees and shrubs around White Oak. The contractor has also provided an education out-reach programme by attending local schools to give insight into the 'built environment'.
- 13 Officers have worked closely with Orchards Academy and The Kemnal Academies Trust (TKAT) regarding improvements to their sports hall. TKAT's Asset Programme Manager has taken the lead on delivering the improvement plan for Orchard Academy's sports hall, which will enable them to work agilely through the procurement process and ensure value for money. Officers have assisted the school to secure the additional funding required to complete the project. The Council and TKAT have also agreed a community use plan that will allow local community groups the ability to use the sports facilities at the school. TKAT remain committed to supporting the local community, but are currently in liaison with KCC and the Department for Education regarding a recent unforeseen drainage issue, which resulted in significant flooding of school buildings, including the sports hall, and may impact the school's improvements timescales and proposals.
- 14 A Deed of Variation was completed in July 2020 to accommodate the works to the site at the Leisure Centre which falls within the demise of Sencio's lease. In June 2021, in accordance with the terms of their lease, Sencio were served a break notice to terminate the lease at White Oak Leisure Centre on 16th January 2022. Applicable Sencio staff will TUPE to the new leisure operator Everyone Active on 17th January 2022.

- 15 The old leisure centre will no longer be operational from the 13 January 2022, and arrangements are in place to remove, decant and dispose any remaining inventory and to disconnect existing services. On the 17 January, the old leisure centre will be handed over to the main contractor to finalise the existing building's decommissioning and commence with demolition works, which includes the removal of asbestos.

Soakaways and Voids

- 16 A series of soakaways (5 concrete manhole chambers 1.8m wide and 18m deep) and large voids (33m³, 23m³, 3m³ some 15m below ground) located within the footprint of the new leisure centre were discovered during the ground works. They were not identified in the pre-construction ground investigation surveys nor in the due diligence investigations and searches undertaken. Kent County Council (KCC) was also not aware of the soakaways as they did not appear on their asset register, but following investigation, KCC confirmed the soakaways were their assets.
- 17 The soakaways and voids were consequently surveyed to determine their full extent and additional geotechnical and structural engineering advice was obtained. The soakaways and voids were subsequently infilled and piling foundations had to be reconfigured around the soakaways and voids. The discovery and remedial works undertaken has resulted in delays and additional costs.
- 18 Despite having agreed a new drainage system with KCC, Thames Water and the local planning authority, a new permanent drainage system needed to be re-engineered and a temporary drainage solution had to be agreed for an interim period. KCC also required additional investigations and modelling of the areas drainage network be undertaken before a permanent solution could be agreed. Discussions with Thames Water and KCC were protracted due to poor records held by all three parties, but the Council undertook additional survey works to expedite the matter. A permanent drainage system was finally agreed in November 2021. The temporary and new permanent drainage systems together with associated impacts (such as for example the need to provide temporary access arrangements to the new leisure centre), have resulted in additional costs.

Covid and Brexit

- 19 Proactive Covid-19 and supply chain management has ensured that these two issues would not have a significant detrimental impact on the project. However, not all issues could be fully mitigated and delays with the receipt of some materials caused programme slippage of up to 7 weeks. This in turn has placed pressure on costs.

Asbestos

- 20 While asbestos surveys were undertaken of the existing leisure centre, given the need for the existing leisure centre to remain operational, R&D asbestos

surveys could not be undertaken. While an allowance for asbestos was made at the start of the contract, further investigations undertaken in September and October 2021, revealed the existence of asbestos in unexpected areas and the allowance originally made is no longer considered to be sufficient.

Additionally, the full extent of the presence of asbestos cannot be ascertained with certainty at this point in time. It will only become known once the existing centre is no longer operational and demolition works commence.

Decommissioning of the existing leisure centre

- 21 Several costs associated with the decommissioning of the leisure centre only became apparent following the termination notice that was issued to Sencio in June 2021. Such costs included the need to remove certain fittings and furniture and soft strips associated with demolition, and contract penalty clauses associated with the early termination of certain services. In addition, the final cost for demolishing the old leisure centre and making good adjacent site boundaries need to be brought in scope, and these works were only tendered in October 2021.

New operator

- 22 A good working relationship has been established with the new operator, Everyone Active (EA), which is part of Sports and Leisure Management (SLM) Limited, and their input has been sought throughout the construction period and advice sought on proposed Change Requests.
- 23 EA has updated its operational plans to reflect the revised opening date in February 2022. A membership marketing suite was established in November 2021. EA will oversee the TUPE transfer of Sencio staff on 17 January 2022 and the new leisure centre's opening in February 2022.

Project Timetable

- 24 Table 1 below provides an overview of the project's programme and highlights overall slippage to the project by circa 3 months.

Table 1 Key Dates			
Stage	Detail	Original	Revised
Statutory approvals	Planning consent	13 February 2020	Achieved
Building Control	Building Regs approval	12 March 2020	Achieved
Project approval	Council project approval process	22 April 2020	Achieved
Project approval	Development agreement	22 April 2020	Achieved
Project approval	Instruct contractor	24 April 2020	Achieved
Construction	Mobilisation	22 May 2020	Achieved

Construction	Start on site	25 May 2020	Achieved
Construction	Phase 1 complete	12 November 2021	17 January 2022
Operator	Sencio WOLC lease terminates		23.59 16 January 2022
Construction	Centre handover	15 November 2021	12 February 2022
Construction	Fit out and training	26 November 2021	January 2022
Construction	Asbestos R&D of existing centre	3 December 2021	February 2022
Operator	New Centre opens (TBC by EA)	29 November 2021	12 February 2022
Construction	Existing centre strip out and demolition	3 December 2021	From 17 January 2021
Construction	Car park works	13 May 2022	August 2022

Costs

- 25 The original project budget approved for this project in April 2020 was £20m. Prior to approving this budget, numerous discussions took place with ALS to establish the budget, review the risk register and establish an appropriate client contingency allowance. Based on due diligence work undertaken at the time a contingency allowance of £657,308 was made. This allowance included provision for asbestos removal and demolition works, as well as an allowance for potential risk items and client changes.
- 26 The client contingency allowance made at the time was considered prudent and represented 3.9% of the total build cost and this is in addition to a 2% provisional sum allowance made by the contractor. ALS has advised that these figures closely align with other leisure centre projects they have and are managing.
- 27 The draw-down to date against the provisional sum allowance and the client contingency is considered reasonable and would have been sufficient if the scheme would not have encountered unforeseen events. The additional costs associated with the unforeseen events and forecast overspend are shown in Table 2. The additional costs have been reviewed by Alliance Leisure and internally within the Council.
- 28 The Council together with ALS, their consultants and the main contractor has carefully assessed any potential outstanding risks (See Appendix B). While the need for as much cost certainty as possible is appreciated, the process of quantifying remaining risk is not a precise exercise. However, appropriate mitigation has been applied as much as possible. The remaining risk items have consequently been given an assessed value.

Table 2: Additional Costs Summary

	Item	£
1	Covid 19 site control measures	£76,500
2	Voids mapping and remedial works (includes cost of delay to programme)	£474,373
3	Soakaway temporary solution (includes cost of delay to programme)	£419,907
4	Soakaway permanent solution	£288,687
5	Changes to specification (e.g. power for electric sub-station, drainage diversion, gym finishes, temporary entrance footpath, post completion hoarding)	£245,658
6	Increase to asbestos removal to existing White Oak Leisure Centre and party wall area with Bowls Club	£451,833
7	Decant of existing White Oak Leisure Centre	£230,182
8	Expenditure outside works contract (e.g. consultants, surveys, cctv upgrade, soakaways downstream, Sencio contract penalty payments, capitalisation of salaries)	£300,932
	<i>Sub Total</i>	<i>£2,488,073</i>
9	Unforeseen costs estimate to end of construction project	£1,164,614
	Project Budget Contingency	-£657,308
	Total Construction Project Forecast Overspend	£2,995,379

- 29 From Table 2 it can be noted that the largest part of the additional costs incurred relates to the soakaways and the voids (c. £1.3m).
- 30 Details of the contract variations (Instructed and Anticipated), are shown in the background document Financial Statement no 19, 22/12/2021. It is worth noting that there have been seven variations that have had nil financial cost to SDC and £21,826 variations funded by others (SLM and ALS). Additionally, SDC negotiated £66,000 savings relating to an attenuation pump and new electrical service.
- 31 A provision of c. £450,000 (originally £230,000) has now been made for the removal of asbestos, but because this remains an unknown element, it has been given a high outstanding risk weighting, and an additional contingency allowance has been made (included under item 9).
- 32 As ground conditions under the existing leisure centre cannot be assessed, and given the abnormal ground conditions encountered during the construction of the new leisure centre, a prudent allowance has also been included under the revised contingency Item 9.
- 33 Item 9 in Table 2 therefore provides an assumed risk based assessed contingency for unforeseen works during the demolition of the existing White Oak Leisure Centre, further potential Brexit/Covid related delays and costs, and extra consulting/staffing costs. Appendix B, provides an overview of remaining risks which are been closely managed by ALS, the contractor and the Council.
- 34 A review of fixtures, fittings and furniture at White Oak Leisure Centre has taken place together with any contractual penalties associated with terminating existing services and contracts. Sencio has confirmed that assets belonging to them will be removed from site and stored elsewhere

prior to the termination of their lease on 16th January 2022. Sencio and Everyone Active are liaising with customers and clubs who currently store assets on site to ensure that these are also removed or if applicable, moved to the new leisure centre. The Council is under a statutory obligation to store any unclaimed items, and the removal and temporary storage of these items has been factored into the additional cost budget.

- 35 The remaining assets, which form part of the White Oak Leisure Centre lease, have been divided into two; those identified as operationally advantageous to be transferred from the White Oak Leisure Centre lease to Sencio's other facilities and those remaining which the Council will remove by 31st January 2022. The costs to carry out this decant of the building are £230,000 and will be managed by ISG who will take full responsibility of the building and contents during this time.
- 36 Due to long-term sickness issues within the Council, the Council has also had to bring in additional staffing resources to closely manage the project, and has also needed to seek external specialist advice on the unforeseen events. These have resulted in additional costs.
- 37 Close on £2m of additional costs can be attributed to the abnormal ground conditions and asbestos issues. The remaining contingency for unforeseen events of £1.164m is an assessed risk allowance. As such this funding will only be drawn down if needed.
- 38 In benchmarking this project against other similar projects, excluding the additional risk contingency being provided, the final accounts for the project would suggest an overspend of £436,000, which represents a total project cost variance of 2.18%. This is considered to be exceptionally good given the type of project and nature of contract the Council has entered into and demonstrates good project discipline and project management by the Council.

Income

- 39 Delay in the construction programme (due to the impacts of unforeseen site conditions, Covid-19 and Brexit causing issues with the supply of materials and personnel) has pushed back the completion date from November 2021 to early February 2022. The expected net income from the new operator contract has therefore been adjusted accordingly by Sport and Leisure Management (SLM) trading as Everyone Active. This has seen a reduction of c. £1,000 to the 15-year net income to the Council which has been re-profiled across the contract, with operator costs continuing to be incurred by the Council in years 1 and 2 of the contract. There is an option to extend the contract for a further 5 years with indicative income for that period remaining at the same level or higher.

Funding

40 Various options were considered to fund the identified budget shortfall. These ranged from identifying potential value engineering options, including specification changes to reduce costs, changes to the construction programme, and reviewing the administrative and contract arrangements for the project. Further details are provided in Section 47 under Options.

41 The funding previously approved for this scheme is as follows:

Table 3:

Funding Source	£m
CIL funding	0.9
Capital receipts	10.1
External borrowing	8.0
Total	20.0

42 It is proposed that the budget shortfall of £2.995m is funded as follows:

Table 4:

Funding Source	£m
External borrowing	1.900
Use of reserves	1.095
Total	2.995

43 The initial £8m of external borrowing was obtained via a 20-year annuity loan from the Public Works Loan Board (PWLB) on 19 November 2021 at an interest rate of 1.7% which results in an annual cost of £472,000. The original report assumed an annual cost of £508,000 to match the average annual payment from the operator. Therefore, a further £600,000 could be borrowed on the same basis at the current rate of 1.99% (12/01/22) without having an additional revenue impact. Every £1m borrowed in excess of the above amounts would result in an additional annual revenue cost of £62,000. In addition to the £600,000 above, a further £1.3m could be borrowed on the same basis by adjusting the ongoing increase assumption for the superannuation fund deficit. This will be reviewed during the 2023/24 budget process after the next triennial valuation of the fund later in 2022.

44 A review of reserves has taken place as part of the annual budget setting process and £1.095m could be removed from the Budget Stabilisation Reserve to fund part of the budget shortfall on this scheme.

45 The original scheme included funding of £10.1m from the future sale of Council assets (capital receipts) but the amount available will depend on actual sale proceeds in the coming years. In the meantime, any shortfall will be funded by internal borrowing which will have a revenue impact via a Minimum Revenue Provision (MRP) from the financial year after the scheme is completed as included in the Council's Treasury Management Strategy.

- 46 The split of funding may change due to actual development costs, the cost of borrowing at the time loans are taken out and the amount of capital receipts received. As noted in Section 28, the additional contingency of £1.164m is risk assessed and many of these risks may not materialise.

Options

- 47 The following options were also considered to fund the unexpected additional costs associated with the construction.
- a. Identify routes to recover costs from third parties. Officers continue to explore all appropriate avenues including seeking legal advice.
 - b. Identify further cost savings by value engineering the remaining scheme. Several review exercises were undertaken by SLM/ALS/SDC. Only £31,217 modest savings were achieved as other potential VE options would adversely affected quality/specification or compromise the operator contract. The Project VE Summary Report 17/02/2021 sets out pre-contract VE aimed at reducing the overall budget of the scheme, and possible VE items remaining (finishes, furniture, fittings and equipment).
 - c. Re-programme the projects timeline to seek savings by reducing overall project duration. Consideration was given to closing and demolishing the existing leisure centre in November 2021 per the original programme. This was rejected since the estimated £50-70,000 capital build cost saving by closing the leisure centre on 12/11/2021 would be outweighed by obligations to the future leisure operator, including to provide membership data and TUPE issues.
 - d. Consideration is being given to increase densities on the residential phase to provide additional capital receipts. However, it is important to note that this approach to raise funding is not guaranteed and further detailed feasibility work is required. Additionally, the residential scheme will need to obtain planning consent and the entire scheme is subject to market and economic conditions.
 - e. Status quo option. This option involves not increasing the project budget. This option is not considered feasible as the Council is under a contractual obligation to fund the scheme despite other avenues available to it to seek alternative funds. Were the Council not to increase the budget there is a very high probability that the contractor will stop further works, which not only will delay the project but could result in additional costs associated with the contractor's remobilisation. Additionally, non-payment could result in legal action being undertaken against the Council.

Financial Implications

- 48 The Sencio lease agreement dated 2004 notes that there are fittings and furniture items that belong to the Council. From an accounting perspective these assets would have fully depreciated over the past 16 years. However, a residual value is anticipated but this value is nominal on an item by item basis. A comprehensive analysis of remaining inventory/assets was undertaken, and confirmed that remaining items would have a nominal value, but no individual item was found to have a value exceeding £10,000. The potential cumulative value of remaining items is also considered to be no more than £10,000. The Council's Financial Standing Orders requires Cabinet approval to dispose non-property related assets that may have a value exceeding £10,000. As such the disposal of these redundant items has been approved by the S151 Officer in accordance with the Council's Financial Regulations.
- 49 Council approved the funding of this capital scheme in April 2020 and allocated a budget of £20m. A contract was entered into with Alliance Leisure Services and the additional cost and anticipated spend of £2.995m identified in Table 2 above will require additional funding. While the project had made adequate contingency provisions, the issues encountered were unexpected and significantly exceeded the contingency allowance included in the original budget.
- 50 The additional funding is to be allocated from the sources included in table 4.

Legal Implications and Risk Assessment Statement

- 51 Due diligence exercises were commissioned to ensure known potential risks were mitigated including investigations of the site's present condition and its past history. Additionally, appropriate contingencies were originally put in place for potential unforeseen circumstances. Given the due diligence exercises commissioned, including investigations of the site's present condition and its past history, these outcomes could not have been reasonably foreseen by the Council in advance and in the early stages of this project.
- 52 Whilst stringent mitigation measures are being undertaken and the project is being bolstered with additional funds, the risk of future cost escalation cannot be fully ruled out. Several significant risks to the project still remain. These include: obtaining final sign-off from KCC for the soakaway permanent solution; decommissioning of the existing leisure centre; unknown factors regarding the demolition of the existing leisure centre where the exact extent of asbestos is unknown despite survey investigation undertaken. The client contingency and costs associated to these unforeseen works has been revised in 'Table 2 Additional Cost' above to reflect these based on the current information available. As such an additional contingency allowance (Item 9 Table 2 above) has been made on an assessed risk value basis.

- 53 Officers are continuing to consider all appropriate routes for recuperation from third parties.
- 54 It is important to note, that this report is being presented to Council to approve a revised budget allocation in accordance with its Financial Regulations. It does not imply acceptance of the costs.

Equality Assessment

- 55 As per the approved 21 April 2020 Council report.

Sustainability

- 56 A sustainability checklist has been completed and a positive impact is anticipated as per the approved 21 April 2020 Council report.

Conclusion

- 57 The scheme's development has been impacted by issues beyond the Council's control. Despite commissioning all the normal expected pre-construction ground investigation surveys and due diligence and having a robust contingency in place, these were not sufficient to mitigate against the additional cost incurred by the project.
- 58 The Council has demonstrated prudent financial and project management discipline on this project as evidenced by a reasonable total project cost variance of c 2.18% excluding the unforeseen and unfortunate events encountered.
- 59 Additional funding is therefore required to achieve scheme completion and ensure the new leisure centre is operational for local residents.
- 60 The Council continues to pursue options that will reduce costs and avoid further delays.

Appendices

Appendix A: Photos

Appendix B: Risk Register Summary

Appendix C: Costs (Commercially confidential) exempt from publication

Background Papers

Report to Council - 21 April 2020 'White Oak Leisure Centre: New build and Operator Procurement'

'Soakaways and Voids Cost Breakdown (from 'New White Oak Leisure Centre, Swanley. Soakaways And Voids Cost Split Summary; 06 August 2021' Axiom Project Services)

'Alliance Leisure Services Ltd, New Leisure Centre Development, White Oak, Swanley. Historical Soakaway System Summary; 03 March 2021' Axiom Project Services

Axiom Project Services, White Oak Leisure Centre, Swanley; Financial Statement No.19, 21 December 2021'

Alliance Leisure Services Limited, New Leisure Development, White Oak Leisure Centre, Swanley, Remaining Critical Path and Risk Items, Revised 06 December 2021. (exempt from disclosure under paragraph 3 of Schedule 12A of the Local Government Act 1972)

'Alliance Leisure Services Limited, New Leisure Development, White Oak Leisure Centre, Swanley; Project Value Engineering Summary 17 February 2021' (exempt from disclosure under paragraph 3 of Schedule 12A of the Local Government Act 1972)

Detlev Munster
Strategic Head of Property & Commercial