

COUNCIL

10 NOVEMBER 2022

SPLASHES SPORTS CENTRE

Portfolio Holder: Councillor Howard Doe, Deputy Leader and Portfolio Holder for Housing and Community Services

Report from: Dee O'Rourke, Assistant Director Culture and Community

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Summary

This report seeks Council approval of an addition to the capital budget to fund the development of the new Splashes sports centre.

1. Budget and policy framework

- 1.1. The provision of Leisure Services is a matter for Cabinet. Additions to the Capital programme are decisions for full Council.
- 1.2. Development of Splashes sports centre aligns with the objectives of the Medway Council plan – supporting Medway people to realise their potential – healthy and active communities.
- 1.3. Development of Splashes sports centre also aligns with Medway's stated ambition to be recognised as a child-friendly city.

2. Background

- 2.1. In July 2020, the Council approved the addition of £5m to the Capital Programme to fund the refurbishment of the Splashes sports centre. However, after extensive structural surveys were carried out at Splashes sports centre to ascertain the condition of the building, it was found to have major structural faults beyond economic repair. It was advised the building should be taken out of use immediately and in June 2021 the Cabinet approved the demolition, which was funded from the original £5m capital scheme.
- 2.2. In July 2021, Cabinet agreed to instruct officers to develop detailed proposals for a new Splashes sports centre in Rainham to provide modern, family-

friendly sports and physical activity facilities in the east of Medway, complementing other Council sports facilities.

- 2.3. Further to Cabinet approval, a professional design team, Space&Place, was appointed through open tender to design the new centre. They began work in November 2021, submitting the formal planning application in March 2022.
- 2.4. Projections from the professional design team at this point indicated the redevelopment could be delivered within a budget envelope of £17.85m. Based on this projection Cabinet were asked to recommend full Council to approve an additional £12.850 million to the Splashes Replacement Scheme within the capital programme to meet this budgetary expectation. This addition was approved by full Council at its meeting on 21 July 2022.
- 2.5. In parallel with the full Council approval and following planning permission being granted, a formal Invitation to Tender was issued to procure the main works contractor. Unfortunately, due to economic volatility internationally, caused primarily by rocketing fuel costs and the war in Ukraine, there has been a knock-on effect on the construction industry across the UK, leading to challenges across all areas of the supply chain, as well as significant increases in labour costs. This has meant that the completed tenders received in August 2022 were several million pounds higher than those projected earlier in the year.
- 2.6. As result of these highly unusual circumstances, the capital budget approved by full Council in July 2022 is no longer sufficient to award a contract for the development of the new Splashes sports centre. There is a risk that these macro-economic conditions may become more challenging in the coming months and years and that attempting to procure these works at a later date could result in even higher tenders being received.

3. Options

- 3.1. The options available to Cabinet were as follows:
- 3.2. A) Not proceeding with the development of a new Splashes sports centre.
- 3.3. B) Delaying development until it can be assessed whether market costs will realign to those originally projected.
- 3.4. C) Redesigning the proposed centre to seek and enable a development within the existing allocated budget envelope.
- 3.5. D) Recommending to Council a further addition to the capital budget to meet the increased costs of the development.

4. Advice and analysis

- 4.1. Option A) As set out in the Cabinet paper of July 2021 and supported by subsequent full Council funding approval in July 2022, the Council has a stated desire to create a family-friendly Splashes sports centre which complements other Council facilities and attracts visitors from across Medway and also from outside the area. Option A would not have delivered these objectives.
- 4.2. Option B) There is ongoing uncertainty in the market about the longer-term projection for pricing. Costs may go down, but they may increase and therefore this option does not bring any greater certainty to the Council of either when work would start or what the final cost may be. Thus, a request for further funding may still have to be brought forward at a later stage. It is also recognised that the previous Splashes sports centre has been closed since March 2020 and an ongoing delay would leave limited sport and physical activity facilities in the east of Medway.
- 4.3. Option C) This would have limited the Council's capital spend on the project to that already approved. However, it would mean a fundamental redesign of the centre which would require a new planning application. To achieve this would incur greater cost at the professional design stage, further limiting the budget available for development of the centre and would also lead to delays in being able to tender the works while a fresh planning application was submitted for approval. As with Option B this would have meant an ongoing delay in delivering sport and physical activity facilities in the east of Medway.
- 4.4. Option D) This was the option agreed by Cabinet. It requires an addition to the capital budget in order to proceed with the development of the new Splashes sports centre, but will enable delivery of a stated Council objective in line with the previously agreed timescale.
- 4.5. The cost and nature of the project mean that it falls within the Council's definition of a Key Decision. Pursuant to paragraph 2.1.2 of the Contract Procedure Rules, all such procurements are deemed to be a high risk and must be referred to the Cabinet for determination.
- 4.6. Following the Cabinet decision to proceed with option D, requesting the Council to increase the funding available, a decision on the contract award will need to be made. Waiting for a Cabinet meeting after the Council meeting will add further delays to the process, thus, subject to the Council's agreement to make an addition to the Capital Programme, the Leader of the Council will be asked to make an urgent decision to facilitate the contract award.
- 4.7. A Diversity Impact Assessment is not required for this report. However, a DIA will be completed when finalising the planned programme of activity for the new Splashes sport centre if funding is approved.

5. Cabinet

- 5.1. The Cabinet considered this report on 18 October 2022 and agreed the following:
- 5.2. The Cabinet agreed to recommend Full Council to approve an addition of an amount, not exceeding £7.0 million, to the Splashes Redevelopment Scheme in the Capital Programme, to enable development of the new Splashes Sports Centre.
- 5.3. The Cabinet agreed to request that Council delegate authority to the Leader of the Council to determine the contract award and instruct officers to complete such agreements as necessary for the delivery of the project.
- 5.4. Members are advised that the recommendation from Cabinet for an addition not exceeding £7.0 million was made at a time when contractors bidding for the main Splashes works development had not confirmed their final tender price.
- 5.5. Subsequent to Cabinet's decision on 18 October 2022 to make a recommendation to Full Council for an addition not exceeding £7.0 million, these final tender prices have been received, and they allow for a downwards revision of the capital sum Full Council is being asked to approve. The revised sum is £5.8 million. The attached exempt appendix provides Full Council with a more detailed analysis of the capital budget.

6. Assistant Director Legal and Governance Comments

- 6.1. The Assistant Director Legal and Governance advises that the delegation of authority to the Leader referenced at 5.3 of the report above is a Cabinet function rather than a Council function. This decision has, therefore, not been included in the recommendations to Council at section 12 of this report. Subject to the Council agreeing the addition to the Capital Programme, this does not preclude the Leader of the Council from taking an urgent decision to facilitate the contract award.

7. Risk management

- 7.1. Risk management is an integral part of good governance. The Council has a responsibility to identify and manage threats and risks to achieve its strategic objectives and enhance the value of the services it provides to the community.

| Risk | Description | Action to avoid or mitigate risk | Risk rating |
|---------------------|--|--|-------------|
| Development costs | Tenders for the building works are over budget | Tender returns have been received so there is a clear indication of market value. Early approval brings the greatest cost-certainty, accepting there could be ongoing volatility in the sector | C3 |
| Tender applications | Insufficient quality of applications received | Tender returns received demonstrate there is sufficient quality | D3 |
| Capital funding | Full Council does not approve the addition to the Capital budget | Cabinet has previously approved the principle of building a new Splashes sports centre. Previous funding of £17.85m for the project has been added to the capital budget. | D1 |
| Project delivery | The project is not delivered within the anticipated timeframe | The project is on programme to enable works to start on site in early 2023. The timeframe is reviewed by the Splashes project board. Accepting unforeseen incidents may occur in a large capital project there is no reason to suggest at this stage there will be a delay in the project, subject to the decisions of Cabinet and full Council. | E3 |
| Affordability | Capacity to fund the project. | The Council faces financial pressures on many fronts and servicing the costs of the borrowing will need to compete against those other calls on limited resources. | A2 |

| Likelihood | Impact: |
|--|--|
| A Very high B High C Significant D Low E Very low F Almost impossible | 1 Catastrophic (Showstopper) 2 Critical 3 Marginal 4 Negligible |

8. Consultation

- 8.1. As proposed in the Cabinet report of July 2021, public exhibitions were held in Rainham Library and Twydall Community Hub during May 2022, and visitors were encouraged to comment on the planning application. In addition, a media release was sent out including the link to the planning application for those wishing to comment.

9. Climate change implications

- 9.1. The appointed professional design team have extensive experience of delivering energy-efficient sports centres and have fully understood and engaged with the Council's desire to reduce energy consumption as part of Medway's climate change agenda.
- 9.2. In order to achieve this, the proposed centre delivers a range of improvements and initiatives which will mean the new centre uses half the energy of the previous Splashes sports centre.
- 9.3. Measures include rooftop photovoltaics, air source heat pumps, recycling heat to pre-heat the swimming pools, maximising solar gain to warm spaces, highly insulated walls and roof complemented with triple glazed windows, and water recycling and recovery systems.

10. Financial implications

- 10.1. Full Council has already approved borrowing of £17.85 million to deliver the new leisure centre on the Splashes site. Circa £2.3 million has been spent to date, including £186,000 for demolition and almost £2.0m on architects and project management. This expenditure to date, together with other client side budgets for communications, ICT, fixtures, fitting and equipment and provision for risk, bring the total commitment before the construction contract is let to £4.7 million.
- 10.2. Following a procurement exercise the bids for the construction contract have come in significantly higher than the budget available and a further £5.8 million is required in order to let a contract.
- 10.3. The revenue cost of servicing £23.65 million of borrowing, assuming an interest rate of between 4% and 5% is estimated at in excess of £1.6 million per annum, taking the cost over 30 years to over £48.0 million.
- 10.4. Prior to the closure of the original facility, Splashes was subsidised, operating with a revenue budget of £306,184 per annum. This pressure was removed from the Council's 2021/22 budget when Splashes was closed. The latest estimates suggest that the net operating budget would need to be in excess of £500,000, taking into account:

- The adverse impact of the 'cost of living crisis' on income projections;
- General inflation running at more than 9%;
- projected increases in the national living wage;
- Inflation on energy costs estimated at between 75% and 100%.

10.5. Ultimately, the net revenue impact of the operating costs and financing costs on the Council's budget would represent a pressure of at least £2.1 million per annum, although the major part of this would not impact until the 2024/25 financial year. Equivalent savings would need to be identified through the budget setting process in order to fund this additional cost.

10.6. It should be noted that if the scheme does not progress, all expenditure incurred to date on demolition and design fees would need to be written off against general reserves, as there would be no asset against which to justify the borrowing.

11. Legal implications

11.1. The provision of leisure facilities is a discretionary function of local authorities, and they are not mandated to provide them, unlike many other functions. The Council has the power to provide leisure centres such as Splashes under the provisions of Section 19 of the Local Government (Miscellaneous Provisions) Act 1976.

11.2. All additions to the Capital Programme are a matter for full Council and this report asks full Council to add a further £5.8 million to the Capital Programme to fund the replacement of the Splashes sports centre. If the Capital programme (some or all) is to be serviced by the Council from its revenue budget, the Council has to be sure that it can meet the costs of servicing the loan, in addition to fulfilling its other functions.

11.3. The Council will face budgetary pressures when considering its revenue budget later this municipal year. When setting the budget, members will need to exercise judgement in balancing competing needs in terms of mandatory and discretionary services. Members should have regard to the advice provided by the Council's Chief Operating Officer (the statutory S151 Officer).

11.4. A procurement exercise has been conducted, the details of which appear elsewhere in this report. Once the contract is awarded, the council will be contractually bound to see the project through to completion, subject to any cancellation provisions contained within the contract. Such provisions normally only permit terminations in specific circumstances, which may not apply at a future date, and usually include the award to damages (compensation) to the innocent party.

12. Recommendations

12.1. The Council is recommended to agree the addition of £5.8 million, to the Splashes Redevelopment Scheme in the Capital Programme, to enable development of the new Splashes Sports Centre.

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Appendices

Exempt appendix

Background papers

None