

REPORT TO LEISURE COMPLEX AND BUS STATION PROGRAMME BOARD

Date of Meeting: 10 July 2017

REPORT TO EXECUTIVE

Date of Meeting: 11 July 2017

REPORT TO EXTRAORDINARY COUNCIL

Date of Meeting: 19 July 2017

Report of: Deputy Chief Executive

Title: Proposal to commence Leisure Complex and Swimming Pool and Bus Station

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

- 1.1 To seek final approval for the development of the new leisure complex, St Sidwell's Point and the new bus station, and to seek approval for the additional funding to undertake the project as one construction contract and to enter into contract with the successful tenderer .

2. Recommendations:

- 2.1 That Executive recommend to Council to agree:

- (a) The allocation of an additional £0.62 million for the bus station and £7.05 million for the leisure centre to develop a new leisure complex and bus station;
- (b) Once the overall budget of £39.92 million is agreed by full Council, the Deputy Chief Executive be authorised to enter into a written contract with the successful tenderer prior to the commencement of any works on site.

3. Reasons for the recommendation:

- 3.1 To enable the wider development of the Bus & Coach Station to proceed, it is necessary for the public sector to fund a new Leisure Centre and Bus Station as part of the comprehensive regeneration project with the development partners Crown Estate & TIAA Henderson Real Estate (TH Real Estate).
- 3.2 Costs associated with the delivery of a new Leisure Centre and Bus Station have increased as a consequence of shifting market conditions. Costs continue to rise and therefore in-line with the Value for Money Report appended in **Appendix B** it is proposed that additional funds are approved to enable the development to proceed on completion of the build contract with the successful tenderer, subject to Leisure Complex Programme Board approval.

- 3.3 The new Leisure Centre (which replaces Pyramids) and the new Bus Station is a much needed amenity for residents, commuters and visitors to the City. The facilities provide a focal point for the Bus Station and Coach Station redevelopment and will attract more people to come in and stay longer in the city centre with consequent benefits to business, employment and the general local economy.
- 3.4 The new Leisure Centre and Bus Station is part of wider site development with Crown Estate and TH Real Estate the development of which is in part dependent on the delivery of these new facilities.
- 3.5 Maintaining the existing bus station and Pyramids Leisure Centre is no longer deemed a viable proposition given the condition of the premises, the lack of accessibility and limited facilities on offer.

4. What are the resource implications including non-financial resources.

4.1 Project Costs

- 4.1.1 To date the Council has approved a budget of £26 million for the Leisure Complex and £6.25 million for the new Bus Station - total budget £32.25 million. £20 million was first approved on 16th December 2014, followed by an uplift of £6 million on 12th August 2015 and £6.25 million for the Bus Station on 25th January 2016.
- 4.1.2 The proposed total cost of the project is now £39.92 million, covering all costs. This includes the build costs and the on-costs associated with delivering the development such as obtaining vacant possession, off-site temporary bus station works and the procurement of an Operator. The report is therefore seeking an increase of £7.67 million to the budget to cover the entire costs of delivering a new leisure centre, bus station and securing Operators for each.

4.2 Funding for the Project

- 4.2.1 As identified, the amount of additional funding being sought is £7.67m (the total funding requirement has moved from £32.25m to £39.92m)
- 4.2.2 The current budget (£32.25m) is funded as follows:
- New Homes Bonus - £18m (to date £10.9m received, the rest to be recovered over the next 7 years);
 - CIL - £ 8m
 - Capital Receipts - £ 6.25m
- 4.2.3 The additional £7.67m will be partially funded via section 106 receipts that have been identified with the balance from borrowing as no further financing is available.
- Section 106 Contributions - £1.4m (to date £0.589m received);
 - Borrowing - £6.27m
- 4.2.4 At current rates the annual cost to the General Fund of financing £6.27m is £231,500 per annum. This charge can be managed, when considered in conjunction with the forecast profit share from the facility.
- 4.2.5 Therefore the cost of servicing this debt will be covered by the anticipated income generated from the Leisure Complex.
- 4.2.6 Contained within **Appendix C** is a Funding Report.

5. Section 151 Officer comments:

- 5.1 The Section 151 Officer has prepared Appendix C, which sets out how the additional budget requirement will be funded. In preparing the paper, the cost of borrowing has been assessed against the assumed income that the Council will generate from the Leisure complex. It can be concluded that the additional income will comfortably cover the borrowing costs envisaged. Indeed the Council would still maintain a surplus from year 2 if interest rates were to rise by a full 1% (additional £46,000 cost) and income was 10% lower than anticipated.
- 5.2 If members approve the additional expenditure, the medium term financial plan will be amended to reflect the additional borrowing costs.
- 5.3 The Section 151 Officer has considered the value for money report from Randall and Simmons and agrees with the conclusion, that whilst the costs are to the higher end, the wider benefits to the City and the beneficial impact of the additional costs on ongoing revenue expenditure means that the Council can be satisfied that the project provides value for money. Members will be reassured that our independent external auditors will be reviewing the project as part of their value for money conclusion this year.

6. What are the legal aspects?

- 6.1 Please see paragraph 9 below.

7. Monitoring Officer's comments:

- 7.1 Members will recall that the legal work to support this project was outsourced to Ashfords solicitors and they will have given advice as to the Councils' powers to undertake this development together with procurement advice leading up to this point where the development is being recommended to you.
- 7.2 Members now have to make a decision as to whether going forward with this development represents Value for Money. Members will see from the appendices attached to this report that the Section 151 Finance Officer has looked at this project carefully and has concluded that *"...the Council can afford to service the additional funding required to deliver the project under option 2"*.
- 7.3 In addition to this Randall Simmonds (Chartered Quantity Surveyors) have been instructed by the Section 151 Finance Officer to advise on whether the project spend represents Value for Money. Randall Simmonds have considered the position and the Executive summary of their expert report states as follows:

"The report compares the capital costs of the Exeter Bus Station and Leisure Centre with similar projects on a like for like basis. The report finds the Bus Station and Leisure Centre are generally comparable to others and within our expectations... The report concludes that the project provides value for money..."
- 7.4 Clearly this is a very large investment for Exeter City Council and members are therefore reminded that they should read the report and each of the appendices attached before making a decision as to the way forward.

8. Report details:

- 8.1 The regeneration of the Bus and Coach Station site is a long-held aim of the City Council. The Council agreed to £20 million of funding for a new leisure centre with a consequent uplift of £6 million in project value agreed by Full Council on 12th August 2015. On 25th January

2016 Council approved the allocation of £6.25 million for the delivery of a new bus station in Exeter bringing the total budget allocation to £32.25 million.

- 8.2 The City Centre is an important driver of the economy of the city and ensuring its continued success is important despite the positive contribution made by major investments in recent years. In order to remain competitive to attract and support investment by current and new businesses further regeneration of the City Centre including one of its major gateways, the Bus and Coach Station, is essential. The redevelopment of the Bus and Coach Station site adding to the leisure dimension of the City Centre is important to enabling it to respond to changing consumer behaviour, to continue to attract high numbers of visitors into the heart of the city and help maintain the city's reputation as one of the best places to live.
- 8.3 As businesses and organisations become more dependent on and are competing to attract specialist talent, the ability of the city to attract and retain high calibre employees is also a key aspect of the development and success of the city's economy going forward. Remaining competitive is about maintaining the momentum of investment and not falling behind in terms of the quality and nature of the experience provided by the "place" as a whole.
- 8.4 Regeneration will bring direct financial benefits in terms of additional employment and expenditure in the City Centre but also through the generation of additional business rates income.
- 8.5 The Council's ambitions along with Exeter City Futures to make Exeter Congestion Free by 2025 means that every effort is required to entice commuters and visitors to Exeter out of their cars and onto public transport. A new bus station, replacing the existing dilapidated facility will provide enhanced facilities to encourage greater use of public transport in a convenient and well-serviced location.

9. Procurement Process:

- 9.1 A comprehensive tendering process was undertaken for the combined construction works of a new Leisure Centre and new Bus Station. The Council's ExeSeed Contractors Framework was used and 5 contractors invited to tender for the works. The Tender Report is contained within **Appendix A**.
- 9.2 Following the completion of a 19 week tendering process, two contractors submitted compliant tenders.
- 9.3 The tender returns were higher than anticipated. In part due to localised market conditions, availability of contractors, the detrimental impact of Brexit (in particular to the cost of materials and availability of labour) and market uncertainty. This resulted in the need to invite the two tendering contractor to submit their 'Best and Final Offer' (BAFO) to the Council based on some value engineering modifications to the design and materials of the new development.
- 9.4 At the end of the BAFO period a price has been reached with a Contractor which has resulted in the overall total project cost being exceeded by £7.67 million. This contractor has been assessed and is determined suitable to be appointed and enter into a building contract with the City Council.

9.5 The results of the BAFO provided three options for consideration:

Option 1: Develop the new Leisure Centre and Bus Station aligned to the already Council approved total project cost. To achieve this the top floor of the leisure centre would need to be removed (the Spa and 2 studios), and 40% of the gym area removed. The enclosed glazed wall would also need to be removed from the Bus Station concourse. The buildings as designed are therefore compromised.

Option 2: Develop the new Leisure Centre and Bus Station aligned to the revised BAFO figure (incorporating value engineering). The facility mix would remain as identified in the Feasibility Study. The buildings would remain largely as designed, with amendments to products and some aesthetic matters.

Option 3: Develop the new Leisure Centre and Bus Station aligned to the most favourable tender return figure. The facility mix and design of the buildings would remain exactly as issued in the original Tender documents.

9.6 Re-tendering the works was an option but discounted after consideration of construction market analysis, projected tender cost indices and the availability of constructors in the South West. It was considered unlikely that any improvement in tender price will be achieved by re-tendering, if anything it was highly likely that tender submissions would be returned higher.

9.7 In reviewing these options, consideration was given to the following issues:

- Impact of facility mix on operational costs / revenue surplus
- Impact of increased funding requirement and affordability
- Impact on Value for Money
- Impact on the Site's planning permission and design constraints
- Effect of Tender Price Inflation on programme delays for re-design
- Impact of any design changes or delays on the Crown Estate Development Programme

9.8 To assist with the review of the options, the professional services of the following consultants were utilised:

- Continuum Sports Consultants
- Baker Ruff Hannon, Project Managers and Technical Experts
- Randall and Simmonds, Quantity Surveyors and Cost Consultants

9.9 The Table below provides a summary of the options and the impact on the operational viability of each option.

		Total Project Cost	Facility and Design Considerations	Forecast 25 year Surplus Revenue
Option One <i>Budget Compliant</i>	Leisure Centre Bus Station Total	£26m £6.25m £32.25m	The top floor of the leisure centre is removed (the Spa and 2 studios), also 40% of the gym area is removed. The enclosure glazed wall is removed from the Bus Station concourse. The buildings as designed are compromised.	'Base Revenue'
Option Two <i>BAFO Scheme</i>	Leisure Centre Bus Station Total	£33.05m £6.87m £39.92m	The facility mix remains as identified in the Feasibility Study. The buildings remain largely as designed, with amendments to products and some aesthetic matters.	+ £14.3m above 'Base Revenue'
Option Three <i>Original Tender</i>	Leisure Centre Bus Station Total	£36.21m £8.06m £44.27m	The facility mix and design of the buildings remain exactly as issued in the original Tender documents.	+ £12.4m above 'Base Revenue'

9.10 The 25 year surplus revenue makes allowance for the lifecycle costs (repair and replacements). The higher the total project costs, the higher the lifecycle costs as appraised within the Operator Business Model. This explains the revenue difference between options two and three.

9.11 Based on the review of each of the options it is recommended that Option Two is adopted for the following reasons:

- (i) The option delivers value for money without compromising the facilities and accommodation mix, see **Appendix B** and the Value for Money Statement.
- (ii) The option prevents the need to stop the programme and undertake a redesign to align with an original budget allocation
- (iii) The option prevents any facilities being omitted and therefore promotes a positive revenue to the Council
- (iv) The option maintains the aesthetics of the facilities without compromising the planning permission already in place
- (v) The option remains aligned to the Crown Estate Development programme and offers an integrated solution to the bus station redevelopment.
- (vi) The option removes the risk of re-tendering the works, delaying works on site and incurring additional costs due to tender price increases.

10. Operational viability:

10.1 Continuum Leisure consultants have undertaken modelling and business plan projections (June 2017). Their financial analysis shows that Option 2 would remain profitable and provide a return to the Council even when accounting for any proposed operator profit share and financial costs associated with the development.

11. How does the decision contribute to the Council's Corporate Plan?

11.1 The new Leisure Facility would deliver the Council's declared priority of a new swimming pool and leisure complex that is fit for a growing population and meets the Health and Wellbeing Board's objectives of increasing levels of physical activity in the city.

11.2 The new Bus Station would deliver enhanced public transport facilities to align with the City Council's aspirations to create a congestion free City by 2025.

11.3 The delivery of a successful redevelopment of the Bus Station Site is a key priority of the City Council.

11.4 If the Council does not deliver the new facilities then it is unlikely that the commercial redevelopment of the bus station site will proceed, leaving the existing, unsatisfactory bus station in place. It would also result in the need to make a substantial capital investment of at least £7 million to bring the Pyramids Swimming Pool and existing Bus Station up to modern standard. This capital expenditure would not be recoverable as it is anticipated there would not be any resultant uplift in operator revenue profit share.

12. What risks are there and how can they be reduced?

12.1 There are a number of risks with the project. The Risk Report contained within **Appendix D** provides the details of the pertinent risks for this decision point in the project and how these will be mitigated.

12.2 An active risk register is maintained and actively monitored to avoid and mitigate risk throughout the timeline of the development.

13. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

13.1 The new Leisure Complex will provide a building and facilities which will be much more accessible than the Pyramids can provide and be more flexible in allowing more people to use it without having to be a member of a local sports club or association. It is intended that through discussions with the commissioning body for health services that there will be availability of activities and advice specifically to promote and support health and well-being included within the operation of the complex.

13.2 The new bus station will provide a better quality environment for bus users and public transport along with improved accessibility.

Are there any other options?

14.1 If additional funding cannot be secured, then it is likely that the whole, private sector development for the bus station site will not proceed.

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Deputy Chief Executive

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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Appendices

Appendix A – Tender Report (Part 2 only)

Appendix B – Value for Money Report (Redacted version)

Appendix C – Funding Report

Appendix D – Risk Report