

EXETER CITY COUNCIL

SCRUTINY COMMITTEE COMMUNITY 2 SEPTEMBER 2008

**EXECUTIVE
30 SEPTEMBER 2008**

NEW SWIMMING POOL FOR EXETER

1 PURPOSE OF REPORT

- 1.1 To propose the best way of providing swimming facilities in the future, following an options appraisal comparing the provision of a new pool to replace Pyramids with refurbishing Pyramids.
- 1.2 To consider further the procurement methods for the chosen option.

2 BACKGROUND

- 2.1 The Council has done considerable research into the costs of a new build pool, on the Clifton Hill site, employing Clarke Bond to provide site-specific costs. The estimate as reported was £7 million.
- 2.2 At its meeting on 20 November 2007, Executive resolved to:
 - a) confirm its intentions to build a new 8 lane 25 metre swimming pool at Clifton Hill to replace Pyramids subject to it being affordable within the framework of the Council's current medium term financial plans
 - b) proceed to the appointment of a design team
 - c) allocate funding for the procurement of architectural services to design a 25 metre 8 lane pool to RIBA Stage C level of detail.
- 2.3 In the report it was pointed out that before a final decision could be made regarding the new facility the Council would need to demonstrate its affordability within the constraints of its medium term financial plan and other revenue and capital commitments.

3 RECENT ISSUES

- 3.1 Revised asset management guidelines now require the Council to carry out a more detailed options appraisal to test the costs of a new pool against those of a major refurbishment package, in order to ensure a fully robust decision before committing substantial capital or revenue.
- 3.2 Over the last year or so the Council's financial situation has changed, with significant budgetary reductions having to be made to deal with the reduced government grant.

4 OPTIONS APPRAISAL

- 4.1 In order fully to inform a proper options appraisal, it was decided to carry out a very detailed survey of the existing Pyramids site. The survey was divided into three areas: the building itself, the pool related plant, and other mechanical and electrical

services. The consultants carrying out the survey were asked to provide costs in some detail either to keep the pool running for 5 years, or for 20 years. In the case of the latter of course, it was realised that there would be very substantial costs. The term of 20 years is somewhat artificial, but represents a medium to long term view. The 20 year cost does not include what might be called operational and cosmetic refurbishment during that period – regular painting, replacement of boilers and so on, which fall outside the major structural framework being used.

- 4.2 The results of the survey are attached as Appendix I. The state of the building itself was revealed to be better than had been expected. Previous long term plans, based on generic maintenance planning, had anticipated considerable deterioration to the walls and roof, which turned out not to have occurred. In contrast the pool plant is well known and understood, and does require complete replacement. Not only is it gradually failing but it is incapable of performing fully to modern standards. The cost of a full refurbishment is estimated to be £1.75 million. The appendix shows three levels of cost. The first is that which must be done immediately to keep the pool in operation – normal running maintenance. The second column is the cost of relatively minor works to ensure the pool runs for the next five years – ie what must be done for the pool to be kept in operation until a new pool can be built. The third column represents the cost of a major refit to enable the pool's life to be extended by a further 20 years. This does not take into account some improvements which would be needed to bring the water handling up to modern standards, so does not represent the full cost of the refurbishment project.
- 4.3 The options appraisal itself is necessarily complicated, but in simple terms it demonstrates that the annual cost (at today's prices) of providing a £7m new pool is approximately £708,000 per annum, compared with £420,000 per annum for a £1.75m refurbishment programme: a difference of £288,000 per annum. These are not like for like figures, in that a refurbished Pyramids will not reach anything like the standard of provision which the £7m new pool would, more a way of comparing the two options on the table. There is an industry rule of thumb which suggests that in any case like this equilibrium of long term cost is reached when the refurbishment reaches a threshold of £3m, and this figure was used as a test with the model, and found to be correct.
- 4.3 Appendix II demonstrates the actual costs of the two options over a comparable 20 year period, in the form of a pair of spreadsheets. Appendix III compares the benefits and disadvantages of the two approaches, based on the estimated costs of both. The costs of a new build need to include any work required to keep the old pool in operating order up to the commissioning of the new one.

5 REFURBISHMENT OF PYRAMIDS

- 5.1 Members previously rejected a refurbishment option because inevitably it would leave the city without one of its two major pools during the period of refurbishment. There were also doubts about the fitness of the present building, however well refurbished, to house a modern swimming facility.
- 5.2 The pool tanks and the overall building have been found to be structurally sound. The main works required include the replacement of items of pool plant, refurbishment of all changing rooms, decorative improvements (eg re-tiling the learner pool hall and improving the ceilings), replacement of the roof, and improving disabled access. Some of this work needs to be done quite soon and other items, such as replacement of the roof, will need to be done when it reaches the end of its serviceable life. Enforced closures of the pool therefore should be able to be kept mostly to periods up to about 6 weeks. However there is an alternative option, which

is that the entire work could be carried out early in the life of the next leisure management contract, in late 2010 and early 2011. This would be a longer single closure, perhaps 5 months, but would enable the costs to be forecast with more certainty, and where appropriate included in the financial details of the new leisure management contract.

- 5.3 As part of the specification of the refurbishment, the Council should pay particular attention to issues of water turnover and water purification to ensure that the re-opened facility could as far as possible perform to the best modern standards in that regard. Although substantial improvements can be incorporated, the subsequent pool will not be able to achieve the highest standards of water turnover.

6 NEW BUILD

- 6.1 Members have already seen the sketch proposals for a new 8 lane 25 metre pool plus a 20 metre learner pool, both with moveable floors, attached to Clifton Hill Sports Centre. This is the option previously supported by Executive in November 2007 before the additional survey and costing information was available.

7 ALTERNATIVE PROCUREMENT

- 7.1 As was set out in the November report, the Council has a number of choices of procurement method.
- Firstly, the simplest and the cheapest is to commission a design and then employ a builder and consultant team to build the pool. At the appropriate point the pool becomes part of the contract with the Council's chosen leisure management contractor. In the case of refurbishment of Pyramids, this could be planned and arranged by officers.
 - Secondly the Council can provide the money, and then ask the contractor to provide a new pool or refurbish Pyramids to an agreed specification, a route generally known as Design Build Operate and Maintain (DBOM).
 - Thirdly, the leisure management contract may contain provision for the contractor to build the pool or refurbish Pyramids, with his own finance, and recharge the cost over the period of the contract – this is known as Design Build Finance and Operate (DBFO). There is some uncertainty about whether all contractors would be able to offer this facility now, but it is very clear that it would increase the annual costs shown in the spreadsheets, and it would require a high early expenditure to secure the legal agreements needed to create the partnership to carry the work out.
- 7.2 The cheapest means of project finance is the use of a council's own reserves for the procurement. This entails the loss only of the interest which would have been earned on it. However the City Council no longer has reserves to finance such a scheme.
- 7.3 Borrowing capital funds adds £90,000 a year per million borrowed to the Council's revenue budget requirement.
- 7.4 Procuring finance through a third party (such as a leisure management contractor) would cost more than this, as there would be additional management costs and it is likely that a local authority can secure more competitive borrowing rates. In addition, the pay back period would need to be in the order of 25 years to be viable, and there are distinct disadvantages in having such a long leisure management contract (such as lack of flexibility to change, and fewer opportunities for re-testing the market).

There are also significant costs in agreeing a finance and build deal, particularly for legal and financial advice.

- 7.5 If the Council gives its leisure management contractor the responsibility for designing the pool and building it (or, to some extent, refurbishing it), it is more likely to be designed in such a way that there can be direct benefits in operational income to the contractor which the client no longer has to subsidise, meaning in theory that the cost of the contract reduces. In this scenario the design is jointly developed by the Council and the operator, with one aim being reducing operating cost and maximising income. Once the design is agreed, the cost of building, maintaining and the income is factored into the overall leisure management contract, and at that point, most risk transfers to the operator. There are inevitably compromises between client and operator, each of which has a cost, but once that is agreed there is more cost certainty for the Council. With the refurbishment option, there is much less scope to increase income, although there is still some.
- 7.6 A new leisure management contract is to start in September 2010, and the process of obtaining a contractor needs to begin immediately – it has been on hold for the last year or so while the procurement of the pool was being investigated. In any scenario other than one in which the contractor builds a new pool for the Council with his own money, the term of the contract is likely to be 10 years with an option to extend for a further five years; this would be the preference of the tenderers in any case.
- 7.7 There are a number of options for how the leisure management contract can be written:
- No new build / pool refurbishment.
 - The Council will arrange and pay for any works during the contract and pass the new / refurbished building back to the contractor.
 - The Council will pay for and the contractor will arrange any works, during the contract.
 - Contractors include within their tenders to undertake new build or refurbishment.

8 WHICH OPTION?

- 8.1 In the light of the latest information a decision is needed on which option should be pursued – a new pool or refurbish Pyramids. It is not an option to do nothing, as significant expenditure will be needed regardless to keep Pyramids operating safely and to a reasonable standard

9 IMPLEMENTING PROCUREMENT

- 9.1 Whether there is to be a new pool or Pyramids is to be refurbished, officers recommend that agreed works should be planned and implemented by the leisure management contractor, but paid for by the Council. The tender documents for the leisure management contract will be compiled over the coming winter and will refer to the option (new or refurbishment) chosen by the Council.
- 9.2 The procurement process will proceed in the normal way, until two or three firms are left, with ongoing negotiations during the tendering process when the Council will discuss in detail with each contractor their proposals and costs, until one contractor is chosen. The negotiations will if necessary continue into the early years of the contract, depending when works are to begin and the extent of those works.

Opportunities for maximising income and so lowering ongoing management fees will be explored with potential contractors during the negotiations phases.

- 9.3 In July the Council issued a second invitation to all potential contractors under the European competition legislation to meet the Council and discuss all the elements of the proposed contract, so that all have had the opportunity to become involved. Five contractors attended the meeting on 31 July, when the various options for how the contract should be structured were discussed. This process must start almost at once or the Council will find that it must renegotiate further extensions with the present contractors.

10 FINANCIAL ISSUES

- 10.1 No realistic source of external or partnership funding for a new pool has been identified. It now appears that the Council would be put in a very disadvantageous situation if it were to decide to borrow to finance a new pool. Coming at this particular time, borrowing would put huge stress on the revenue budget, and payments for the capital project would begin long before there were any savings from the closure of the Pyramids and any efficiencies from the modern pool. Switching to an operator financed scheme would postpone the costs as far as the Council was concerned until the new pool was open and Pyramids closed, but the overall cost of borrowing would be significantly greater.
- 10.2 It should be noted that the Head of Treasury Services has warned that, primarily due to the cost of servicing a £7m loan in the light of the Council's current overall budgetary position, he does not recommend the new build option at this time, unless significant savings are made in other budgets to cover the additional costs.
- 10.3 Other reductions in the cost of the leisure management contract may also be achievable. The Council has hitherto not fully explored the option of collaborating in the forming of a trust to operate the leisure estate. Many other councils have now adopted this route, which enables the operating trust to claim relief on business rates, thus reducing the overall cost. This mechanism has now been available for over 10 years without any move on the part of the Treasury to amend the rules, and therefore it is proposed that this Council should consider it once again as part of a strategy to reduce the large costs of operating the centres.
- 10.4 Another possibility is that if it is decided to build a new pool, the leisure management contractor could be invited to enter into a development agreement for a private or semi-private leisure facility at Exhibition Fields, subject to the site being able to accommodate a new facility there,

11 RISK

- 11.1 As with all projects of this nature, there are significant risks in both options. The projected cost of refurbishing the existing Pyramids building may be found to be inaccurate once the structure can be opened up and investigated thoroughly; this is likely to be possible only once the refurbishment has started. Similarly, although the cost of a new pool has been estimated using the best information available, the site is adjacent to areas of known contamination, and the planning related issues of joining the new building to the old (in a conservation area) must not be underestimated. On balance we believe the risks to be of roughly similar proportions.
- 11.2 If the recommendation to refurbish is accepted, we feel it would be prudent to budget for a cost of £2 million to provide a contingency, and to allow for enhancements not covered by the survey.

11.3 The project should be supervised by the Council's Procurement Group to ensure good co-ordination of all services involved in the scheme.

12 CONCLUSION

12.1 The Council needs to demonstrate that it has fully considered all the options when deciding to proceed with the new pool. This will be demonstrated by the options appraisal in the appendix to this report, which uses detailed and up to date information from the condition survey on the Pyramids.

12.2 Financing a new pool through borrowing would create difficulties for the Council. Financing it through a contractor would be more expensive overall, and the operating contract would need to be at least 25 years. This is felt not to be flexible enough, although the costs would be spread over that period.

12.3 Although still a significant sum, refurbishment of Pyramids, funded through direct borrowing by the Council, is affordable under the current financial climate.

12.4 The Council should decide if it wishes to take advantage of other cost saving elements, such as providing land to the contractor, or operating the contract through a trust.

12.5 Asking an experienced leisure management contractor to organise the design and construction, or refurbishment of the pool, is believed to be the most effective way forward to achieve a good and workable pool, but we believe that the most economical way of financing it is through direct borrowing under the prudential code.

12.6 The recommendation below, if accepted, reverses the previously established position of the Council. Prior to further consideration and a decision by the Council, it is suggested that the Portfolio Holder, the Chair and Vice Chair of the Scrutiny Committee and senior officers meet the swimming clubs and other representatives of the users of the Pyramids to discuss the implications of the recommendation, and seek their views and advice. To facilitate this it is recommended that the item is then postponed from the first available meeting of Executive to the next one on 30 September, prior to going to Council in October.

13 RECOMMENDED that:

- 1) The decision of Council to build a new pool at Clifton Hill be rescinded in the light of new information on future revenue budgets.
- 2) Pyramids Swimming Centre is refurbished to extend its life.
- 3) The work be funded by direct borrowing through the prudential code.
- 4) Officers evaluate and report on the benefits and disadvantages of arranging the contract through a trust.
- 5) Officers be authorised to negotiate suitable procurement arrangements with the successful leisure management contractor.
- 6) A meeting be arranged for the Portfolio Holder, the Chair and Vice Chair of this Committee and senior officers to meet representatives of Pyramids users, prior to further consideration of the issue at the Executive of 30 September.

HEAD OF LEISURE & MUSEUMS

COMMUNITY & ENVIRONMENT DIRECTORATE

Local Government (Access to Information) Act 1985 (as amended)
Background papers used in compiling this report:

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