



East
Northamptonshire
Council

Scrutiny Committee – 3 April 2013

Leisure Improvements Project – Pemberton – Review of Procurement Process

Purpose of report: To set out the process by which the Pemberton Centre improvements were procured, from the point at which the original Invest to Save opportunity was identified to the point at which a final budget figure was determined, and to see what lessons can be learnt, particularly in relation to the escalation of costs between the initial estimate and the final budgeted cost.

Attachment(s):

Appendix A – Leisure Contract Working Group (LCWG) terms of reference

1.0 Introduction

- 1.1 As requested by the Scrutiny Committee, this report provides information about the reason for cost changes occurring on the leisure improvement project at The Pemberton Centre. Detailed below is a summary of key information.
- 1.2 After the Council decided in 2010 not to proceed with the proposed Manor Park Leisure Centre, the Head of Customer and Community Services began a review of existing leisure services to see what opportunities existed to save money. The review took place during 2011 and was based on the assumption that all existing leisure services would be retained. The review was considered necessary due to the economic climate and because:
- leisure is a discretionary service
 - leisure management was costing the Council £596k per annum
 - the management agreement with Cultural Community Partnerships (CCP) was due to end August 2013.
- 1.3 In March 2011 the Head of Customer and Community Services advertised a small contract (value of £5k) to a range of leisure consultancies to undertake a study of leisure demand in the District. Alliance Leisure/FMG (FMG) was selected to do the survey as they demonstrated both leisure industry experience and also significant financial and business planning experience. FMG were commissioned to undertake an “invest to save” proposal which included:
- a business case and financial model for The Pemberton Centre and The Nene Centre, to include an analysis of latent demand, income and expenditure forecasts and the impact of the possible displacement of existing user groups
 - illustrations for both sites including floor plans, indicative costs, programme and timetable
 - presentation of all of the above to a small group of Councillors and/or the management team at the Council
 - with regard to The Pemberton Centre only, also to include the option of retaining the function suite and relocating the gym elsewhere in the building to show any potential loss of revenue from that decision.

- 1.4 Splash was not included in the study as it had already been confirmed that it would not be possible to generate sufficient income at that location to justify any investment. FMG was advised that a report was required for May 2011.
- 1.5 In May 2011 FMG presented their initial findings to senior officers. Their presentation stated that the Pemberton Centre had 1011 existing members with a potential to increase to 2451. They advised that the improvements needed to ensure demand could be met included:
- expansion of the health and fitness suite from 60 station to 100 station
 - inclusion of two dance studios
 - improvements to the male and female changing rooms
 - introduction of a spa/treatment room.
- 1.6 FMG proposed a floor plan for The Pemberton Centre and estimated a capital investment of **£1.2m**.based on their experience of standard unit costs used in similar leisure improvements projects. (This is an industry standard approach to the level of costing analysis applied at an option appraisal stage of a project). They produced a business plan for the site which referenced current operational information supplied by CCP, and an estimated payback period for the capital investment.

2.0 Policy and Resources Committee 29 September 2011

- 2.1 At the Policy and Resources Committee (P&R) on 29 September 2011, a confidential paper was presented entitled "Options for Leisure Facilities Management". The paper was produced by the Head of Customer and Community Services and set out the possible future options for leisure facilities management including:
- withdrawal from leisure facilities
 - invest to save options for The Nene Centre and Pemberton Centre
 - future procurement options for the management of the facilities.
- 2.2 Financial information contained in the report was scrutinised by the Council's former Finance Manager before it was issued, and the report stated that **"the estimated capital costs of the proposed works, including fees and replacement of all gym equipment, amounts to around £1.5m"**. (This comprised £1.2m for the works and £300k for gym equipment). It was highlighted within the risk section of this report that that there was a **"risk that the works will cost more than the estimates provided by FMG"**. It further stated **"the sensitivity analysis again identifies the potential financial impact of this. This risk could also be managed through the procurement process"**.
- 2.3 In addition to the report, P&R also received a presentation delivered by the Chief Executive and the Head of Customer and Community Services. The presentation supported information contained within the confidential report. In relation to the costs required to support the invest to save option, the presentation slides stated **"Estimated Costs - capital - independent studies being developed"**.
- 2.4 A copy of this committee report and the presentation slides are not appended to this report due to their confidentiality, but are available upon request. The following minute was made:

2.5 “Minute 203. OPTIONS FOR LEISURE FACILITIES MANAGEMENT

Members received a presentation from the Chief Executive and Head of Customer and Community Services on the possible future options for leisure services management, and then considered a comprehensive report on the matter.

The report took into account a review undertaken by a leisure consultant FMG on the Nene Centre and the Pemberton Centre. This had concluded that there was significant latent demand for health and fitness facilities within a 4 mile radius of the Nene Centre and a 2 mile radius of the Pemberton Centre. Proposals to satisfy this demand were put forward, together with forecasts of increased membership and the significant financial implications of all options.

Whilst members were cautious about the forecasts, it was recognised that the proposals – involving an “invest to save” approach - represented an opportunity to reduce the revenue costs of leisure provision and help the council to secure more cost effective delivery of the leisure service. It was however recognised that any proposals for investment in the Nene Centre should await the outcome of the deliberations and actions on the centre roof.

R.13 RESOLVED TO RECOMMEND:

- (1) That £2.2 million be allocated in the capital programme for Improvements to the Nene Centre and Pemberton Centre;
- (2) That the investment be funded by using the balance of capital reserves plus an element of the earmarked asset management repairs and renewals revenue reserve.
- (3) That the financial impact that will be built into the 2013/14 budget and the Medium Term Financial Strategy as a result of the investment be noted.
- (4) That a Leisure Contract Member Working Group be set up with delegated powers to -
 - Determine the precise timing of the investment in the centres
 - Determine the most appropriate procurement option for management of leisure facilities, and
 - oversee: the competitive process to procure a specialist leisure construction company and related professional services to undertake the improvements to the facilities identified above; and the leisure facilities management procurement process.

(Reason: To take advantage of an ‘invest to save’ opportunity to generate significant returns from enhancing two of our leisure centres and to begin the process to put in place management arrangements beyond the expiry date of the current contract with CCP)”

3.0 Leisure Contract Working Group

3.1 The first meeting of the Leisure Contract Working Group (LCWG or the Working Group) took place on 28 February 2012. Meetings with the Working Group take place once a month and their terms of reference are provided in Appendix A.

3.2 A chronological summary of key items relating to The Pemberton Centre, discussed by the Working Group, is provided below:

- 3.3 **28 February 2012** – The Pemberton Centre leisure improvement proposals were discussed with LCWG. The meeting was also attended by Tony Hall, Head of Welland Procurement, who provided an overview of procurement options including the Scape Framework. LCWG resolved to recommend to the Policy and Resources Committee on 2 April that:
- 3.4 **“the Working Group, pending review of the contractors included on the framework schedule, to progress with a Scape framework to appoint a contractor to complete the invest to save improvement works”.**
- 3.5 **12 April 2012** – The Working Group proposed to recommend to the Policy and Resources Committee on 9 May 2012 that:
- **Kier be appointed to undertake the improvement works for The Pemberton Centre**
 - **Pick Everard be appointed to provide project management for all the projects (Nene and Pemberton).**
- 3.6 **26 June 2012** – The Working Group received confirmation that Kier had been appointed and agreed the appointment of the Project Manager (PM) from Pick Everard following review of the quotes received. The Working Party agreed that the PM should attend all future meetings and agreed the format for PM update reports.
- 3.7 **22 August 2012** – The Working Party received confirmation that Kier were in the process of undertaking various surveys, but no start date for work had been agreed. There were doubts about whether it would be possible to keep the centre open whilst works took place This was the first Working Party meeting attended by the Project Manager. Appointment to other roles including Quantity Surveyor (QS), were also confirmed.
- 3.8 **31 August 2012** – The Working Party discussed sign-off of designs and floor plans. It was explained that costs were still being developed and were expected to be received in two to three weeks time.
- 3.9 **5 October 2012** – It was reported to the Working Party that initial costs, based on designs reviewed 31 August 2012, had come in over budget and because of that a review of the designs had taken place on 17 September to identify potential areas for savings (see 4.3 and 4.4 below). Kier had agreed to prepare a revised proposal for discussion at the next Working Party meeting. This was ‘design 1’. **The cost estimate based on design one was £1.46m, inclusive of contingency and other costs such as project management.**
- 3.10 **9 November 2012** – Revised drawings were discussed (design 2), that significantly scaled back work (no changes to function room or sports hall plus reduction in design in other areas) and identified significant savings against the cost of design 1. CCP confirmed from an operational point of view they were happy to progress with design 2 and believed that it could deliver the same level of income as design 1. However, it was explained that the design was not prepared by an architect and further work was needed in order to obtain a firm cost. **The new cost estimate based on design 2 was £1.36m, inclusive of contingency and other costs such as project management.**
- 3.11 The Working Group agreed to allow Kier to commission detailed designs for design 2 to obtain firm costs. Once these were received the Working Group would then consider whether it was necessary to go back to Full

Council to request further funding. It was hoped that this would not be necessary, and the Project Manager reported that Kier considered it likely that the scheme costs would reduce when the detailed design had been produced and firm prices had been obtained from subcontractors.

- 3.12 **18 December 2012** – The Working Group reviewed a draft report for submission to Full Council on 7 January 2013. The report sought additional funding as **the revised cost figures received from Kier (inclusive of contingency and other costs such as project management) were now estimated at £1.6m. This was an increase of £0.4m on budget and a substantial increase of around £240k since Kier had provided its estimate for design 2 in November 2012.** The Working Group was advised that the revised costs were still estimates because some items had not yet received firm procurement quotations. Kier had, however, provided a guarantee that the project costs would not change further by a maximum of 5% either way. The reasons given for the significant increase was in relation to mechanical and electrical costs and the requirement to replace significant items of the plant, such as boiler. These reasons were discussed with the Working Group.
- 3.13 **11 January 2013** – It was reported to the Working Group that Kier anticipated work to take 20 weeks.
- 3.14 **8 February 2013** – It was reported to the Working Group that work is expected to commence 15 April and last until beginning of September 2013.

4.0 Additional information

- 4.1 A Project Manager, Quantity Surveyor and CDM Co-ordinator employed on behalf of the Council have worked on this project from initial appointment of Kier.
- 4.2 When it was identified that the project was not on budget and designs were scaled back, none of the professionals working on the project, including those employed by Kier and Pick Everard, anticipated when tendering for the work that the costs would rise so significantly. Instead optimism was expressed and it was anticipated that prices would reduce.
- 4.3 As identified in 3.11, a meeting took place on 17 September to review the leisure improvement designs to see if it was possible to make any changes to bring the project in on price. The meeting was attended by:
- Chief Executive (ENC)
 - Chief Executive (CCP)
 - Cllr D Jenney
 - Head of Resources and Organisational Development
 - CCP Centre Manager
 - PM (Pick Everard)
 - QS (Pick Everard)
- 4.4 The outcome of the meeting was to scale back designs to exclude any improvements or upgrades to the function room and sports hall, and to scale back some proposed design features in other areas of the building. The group agreed that any further reductions in design would impact negatively on the invest to save proposal.

5.0 Summary

- 5.1 The escalation of costs from the initial estimated costs were as follows:
- May 2011 – FMG high-level estimate based on floor area - £1.2m

- September 2012 – Kier initial estimate based on ‘design 1’ - £1.46m
- October 2012 – Kier estimate based on revised design 2 - £1.36m
- December 2012 – Kier final estimate - £1.6m

5.2 The costs detailed above are inclusive of contingency and other project costs such as PM and QS.

5.3 Design 2 was a ‘value engineered’ solution designed to achieve the same benefits as originally identified but for the lowest reasonable cost. Kier estimated the cost of that design, based on an architect’s drawing, at £160k (13%) more than FMG’s high level estimate from 18 months earlier. Kier’s final price, having sought firm costs from its subcontractors, was £240k higher than its estimate of one month earlier.

5.4 It should be noted that the costs incurred in the process of arriving at design 2, including various surveys of the building, amounted to around £21k. In addition, support from various experts was sought including advice from mechanical and electrical experts, structural engineers and QS’s, those fees amounted to around £20k.

6.0 Lessons learnt / conclusions

6.1 The survey conducted by FMG produced an estimate of costs. However, it was very much a high level survey relying on information provided by CCP and standard industry unit costs rather than undertaking detailed surveys of the building. Those surveys could have been undertaken at that stage, to produce more reliable data upon which a firmer estimate could have been provided. However, that would have resulted in the Council incurring a significant cost at an early stage, prior to the project being approved.

6.2 Our experience in respect of the Pemberton Centre project suggests that, even if those surveys and detailed designs had been carried out earlier, the approved budget for the project would have been £1.36m but the final cost would still have been £240k above that.

6.3 There is clearly a trade-off between the level of information obtained before a decision in principle is taken to proceed and the level of confidence that we can have in any cost estimate. The preference would be to reduce or remove the likelihood of a significant difference arising between the estimated and final contract cost. The pros and cons of each option are detailed in table 1 below:

| Option | Pros | Cons |
|---|--|---|
| 1 – agree initial price only; appoint experts to undertake surveys, produce designs and procure packages (eg mechanical and electrical) | <ul style="list-style-type: none"> • Will have a firm price before committing budget. • Experts working with the Council from the start. • Avoid trying to match work to budget • Full facts available before committing to project. | <ul style="list-style-type: none"> • May not want to commit significant sum of money to a project to establish a cost (in the case of Pemberton surveys, design and procurement cost over £100k) • When firm price established may not want to proceed and initial price wasted |
| 2 – undertake an initial survey with the support of a QS to form an estimate | <ul style="list-style-type: none"> • More likely to bring a project in on budget. • Will have knowledge of previous similar project costs. | <ul style="list-style-type: none"> • Not as accurate as option 1. • Had the support of QS on Pemberton project but still not close to budget cost and final position was a surprise to everyone. • Cost of the QS would need to be agreed up front. |

Table 1 – possible future options

7.0 Equality and diversity implications

7.1 There are no equality and diversity implications arising from this report. Any issues arising from the proposed works have been considered in the previous reports authorising progress.

8.0 Legal implications

8.1 There are no legal implications arising directly from this report. Legal implications in relation to the proposed works or procurement process have have been considered in the previous reports authorising progress.

9.0 Risk management

9.1 The procurement process undertaken for these proposed works has included the appointment of a Project Manager and Quantity Surveyor to reduce the risks to the delivery and cost of the overall project.

10.0 Financial Implications

10.1 This report does not contain any new or direct financial implications for the Council. However, it does set out the process and approach used to procure a significant capital investment, as well as potential areas for improvement for similar procurements in the future.

10.2 As noted in the committee report supporting the Council's Medium Term Financial Strategy and Budget 2013/14, the Chief Finance Officer has implemented new governance arrangements which make improvements to how we manage and control spending on the capital programme.

10.3 This follows a review of capital planning, monitoring, reporting and the control environment. The review noted it is becoming increasingly difficult to predict budgeted costs for capital schemes until initial feasibility, detailed scheme scoping and procurement have been undertaken.

10.4 Further details of the new capital governance arrangements will be presented to the next meeting of the Finance Sub Committee.

11.0 Corporate outcomes

11.1 **Good value for money**: This report contributes to the corporate outcome of value to money by outlining the process followed for the procurement of the planned improvement works

12.0 Recommendation

12.1 Members are asked to note the report and consider whether to make any recommendations to the Policy & Resources Committee in respect of the future procurement of major projects.

(Reason: to ensure that the Council's exposure to the risk of contract prices escalating is well managed)

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|--|---|-----------|--|-----------|--|
| Legal | Power: Local Government Act 2000 | | | | |
| | Other considerations: | | | | |
| Background Papers: None other than referenced in the report | | | | | |
| Person Originating Report: Executive Director | | | | | |
| Date: 26 March 2013 | | | | | |
| CFO |  | MO | | CX | |

(Committee Report Normal Rev. 22)



Leisure Contracts Working Group

Terms of Reference

(revised following LCWG 28 February 2012)

1. Membership

Members:

| | |
|--------------------|------------------------|
| Cllr Tony Boto | Cllr Philip Hardcastle |
| Cllr David Jenney | Cllr Brian Northall |
| Cllr Sarah Peacock | Cllr Phil Stearn |

Officers:

Lisa Hyde, Head of Customer & Community Services
 Katy Everitt, Head of Resources & Organisational Development
 Sharon Prior, Executive Support Officer
 Richard Hankins, Amenities Manager
 Tony Hall, Welland Procurement Unit

As and when appropriate:

David Oliver, Chief Executive
 Glenn Hammons, Chief Finance Officer/S151 Officer
 Peter Williams, Chief Executive of Cultural Community Partnerships (CCP)
 Chris Tye, Leisure Centres Manager for Cultural Community Partnerships (CCP)

2. Scope

The Leisure Contracts Working Group comprises 6 members of the Council established by (but not confined to members of) the Policy and Resources Committee to consider Leisure Contracts management arrangements in East Northamptonshire.

The formation of the Leisure Contracts Working Group recognises:

- the requirement to develop "invest to save" options for the Nene Centre and Pemberton Centre improvement works, and the subsequent reduction in the Council's leisure management fees;
- recognition by Policy & Resources Committee (29 September 2011) that any proposals for investment in the Nene Centre should await the outcome of the deliberations and actions on the Nene Centre roof; and
- the need to renew the leisure facilities management contract which expires in August 2013.

In particular, the Working Group is responsible for the following:

a) Invest To Save Leisure Contract Projects

- To establish the full range of options for procuring improvements:
 - Nene Centre, Thrapston
 - The Pemberton Centre, Rushden
- To establish approximate costings for the options.
- Following a decision on the preferred options and costings, to take forward a tendering process for the construction and improvement works contract.
- In respect of the tender process, the working group is delegated by Policy and Resources Committee to:
 - Determine the tender evaluation process, operating within the Council's financial regulations, Procurement Procedures and relevant European Union requirements.

- Agree the shortlist of bidders following a pre-qualification process.
- Develop tender documents.
- Contribute to the tender evaluation process – to include assessing tenders and interviewing bidders.
- Identify a preferred contractor.
- Make a recommendation to the Policy and Resources Committee for approval on the award of contract.

b) Leisure Facilities Management Contract

- To establish the appropriate timing and specification for the contract to manage the Council's leisure facilities.
- To recommend a preferred service specification to the Council's Policy and Resources Committee.
- Following a decision on the preferred option, to take forward a tendering process for a new leisure facilities management contract.
- In respect of the tender process, the working group is delegated by Policy and Resources Committee to:
 - Determine the tender evaluation process, operating within the Council's financial regulations, Procurement Procedures and relevant European Union requirements.
 - Agree the shortlist of bidders following a pre-qualification process.
 - Develop tender documents.
 - Contribute to the tender evaluation process – to include assessing tenders and interviewing bidders.
 - Identify a preferred contractor.
 - Make a recommendation to the Policy and Resources Committee for approval of the award of the new contract.

LJH/SP

v2 – proposed changes as suggested at LCWG 28.2.12

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