

Title: Report on the reasons for cost increases in the Castle Farm Leisure Centre and Abbey Fields Swimming Pool projects.
Lead Officer: Paddy Herlihy (01926 456 228)
Portfolio Holder: Councillor Andrew Day
Wards of the District directly affected: Kenilworth wards and District-wide

Summary

The purpose of this report is to present the reasons for the increase in costs for the two projects between the two stages of the procurement process. The body of the report gives some of the reasons for this increase. The confidential appendices provide more detail on the amounts involved in each element of these increases. The appendices are in the private and confidential part of the agenda as they reveal in some detail the financial negotiations between the Council and Kier, and this information is commercially sensitive as it would give other building contractors substantial information about the costs ascribed to particular elements, and also about the negotiating processes involved in the two contracts.

Recommendation

That Members note the content of this report

1 Background/Information

1.1 Phase Two of the Leisure Development Programme consists of the demolition and reconstruction of the Castle Farm Leisure Centre and the Abbey Fields Swimming Pool, both in Kenilworth. The contracts for the construction of these two facilities were let separately, as part of the same two-stage procurement exercise. Kier Construction were identified as the preferred contractor of the works. In the period between Stage One and Stage Two of the two stage procurement process the costs of the work rose considerably.

1.2 Costs during the Procurement Process

1.2.1 The first stage of the procurement process to secure a contractor for the construction of the new Abbey Fields Swimming Pool and the new Castle Farm Leisure Centre (the Centres) was completed in September 2021. This process assessed the tenderers on the basis of their quality and experience, and on the profit and overhead that they would require for the project. Tenderers were asked for their view on overall project costs, and their figures constituted 10% of the assessment at this stage. Kier Construction were identified as the preferred contractor and invited to the second stage of the procurement process. Kier's estimate of the cost of the two projects at that time was within the budget predicted by Mace Cost Consultancy.

- 1.2.2 The Kier non-binding Stage One cost estimate for Castle Farm was £9,936,922.38. The Kier non-binding Stage One cost estimate for Abbey Fields was £8,468,462.40. The non-binding Stage One cost estimates from the other tenderers at this stage were as follows -

Tenderer	Total
Bidder C	18,168,584.81
Kier	18,405,384.78
Bidder D	19,551,418.00
Bidder A	22,101,548.09

- 1.2.3 The second stage of the procurement process involved Kier working with the Design Team under a Pre-Construction Service Agreement (PCSA) to finalise the details of the project and to establish the agreed project cost. Kier worked hard during this stage with the Design Team on an open book basis and also worked with their supply chain to establish the cost of the works during a period of considerable economic uncertainty. Mace Cost Consultancy also worked hard with Kier during this period to restrict the increase in costs as much as possible. The Council does not have in-house resource to interrogate project budgets with the detail required to keep costs under as much control as possible.
- 1.2.4 The accepted Stage Two tender offer from Kier for Castle Farm was £14,153,180.34. This represents a 42% increase on the Stage One estimate. The accepted Stage Two tender offer from Kier for Abbey Fields was £12,550,000. This represents a 48% increase on the Stage One figure. A number of reasons can be identified for this increase in costs.
- 1.2.5 Firstly, the economic situation at that time led to considerable uncertainty over material and labour costs and this led to significant inflation in the building industry and concern amongst sub-contractors, who had to build risk into the prices that they were quoting. Securing fixed price quotes from the market during this much volatility also led to increased prices.
- 1.2.6 Secondly, Kier undertook commercial betterment through the second stage of the tender process. It is likely that Kier also included for the tendering costs and the costs of the PCSA period, which was extended by the complexity of the market at that time. They may have also improved their Overhead and Profit (OHP) percentage during this process. An analysis is shown in the private and confidential Appendix 1 and 2 that shows that if Kier had made these and other changes at Stage One of the tendering process they would still have been a clear winner for both sites, when all aspects of the assessment were totalled together.
- 1.2.7 A third factor is that Kier had not properly quantified the foundation works for Castle Farm Leisure Centre at stage one of the tendering process. Having identified the issue they have corrected their quantities which resulted in a significant cost increase in their second stage tender.
- 1.2.8 A fourth factor was that Kier's work with the Design Team enabled them to develop a fuller understanding of the sub-contract scopes of work at Stage Two of the tendering process and this was not fully captured in the Kier cost estimate at Stage One.
- 1.2.9 In addition, the Council made some design changes during this period which led to an increase in some prices. The Council also chose to 'buy' some risks from the contractor during this process. When this happens, the Council gives money to the contractor to 'buy' a given risk from the contractor. If the risk should materialise, any additional costs are then the responsibility of the contractor rather than the Council.

- 1.2.10 Finally, there were further costs created when standard design and other fee percentages were added to the increase in other costs.
- 1.2.11 The amount of additional costs created by these various reasons is shown in detail for each facility within the private and confidential Appendix 1 and 2. As a guide, each of these factors has been listed below in the rank order of their total cost increase to the combined price of both projects.

Factor	Rank order of total cost increase
Allowance for future inflation risk	1
Inflation in costs	2
Commercial betterment for Kier	3
Omissions in scope	4
Additional fees due to extra costs	5
Increase in scope	6
Design changes	7
WDC buy risk from Kier	8

1.3 Initial Stage Two position and entering contracts

- 1.3.1 In February 2022 Kier provided their initial Stage Two position to the Council. For the reasons shown above, costs had risen significantly since Stage One of the tender. Kier gave a warning that their initial Stage Two position was likely to rise further, due to the on-going volatility in the markets. Mace and the Design Team were closely involved in liaison with Kier to drive these costs down as much as possible.
- 1.3.2 In that month Mace Cost Consultancy, who had been leading on commercial matters for the Design Team, produced a detailed assessment of what was likely to be the final position on costs, when and if the Council was to enter into contract on the two sites. This assessed the cost of the additional known risks and also a likely level for unknown risks. This calculation is shown as private and confidential Appendix 3 to this report.
- 1.3.3 This calculation was used as the basis for the discussion at Leadership Co-ordinating Group, when the decision was made to proceed to contract at both sites. It was also used to make provision within the Medium-Term Financial Strategy for the servicing of the additional sums required.
- 1.3.4 Private and Confidential Appendix 4 shows the subsequent movements in the costs of the two projects from the February decision until signed contracts were agreed. It is worthy of note that Mace's estimation was extremely accurate, with the final difference between their estimate and the actual costs representing less than 0.1% of the total cost of the projects.

2 Alternative Options that were available to Cabinet at that time

- 2.1 When the initial Stage Two costs were made known to the Council, it would have been possible to decide not to enter into contracts with Kier for the two sites. It would have been possible to either abandon the projects altogether, or to go back out to tender.
- 2.2 To abandon the projects completely would have involved the Council in significant wasted capital expenditure in getting the sites fit for use again and would have denied residents in Kenilworth and throughout the District of two modern leisure centres of the same quality as Newbold Comyn and St Nicholas

Park Leisure Centres. Going back out to tender would have prolonged the length of the projects significantly and would probably have been counter-productive in terms of costs, as inflation was increasing at that time and new tenders would have reflected that increase.

3 Consultation and Member's comments

- 3.1 The decision to proceed to contract for both sites was taken by the Kenilworth Project Board, following a positive discussion at the Leadership Co-ordinating Group.

4 Implications of the current situation

4.1 Legal/Human Rights Implications

- 4.1.1 The Council has now entered into contracts with AR Demolition and Kier Construction for the demolition and re-construction of the Abbey Fields Swimming Pool and the Castle Farm Leisure Centre. These contracts are all fixed price and so subsequent inflation is the responsibility of the contractors and not the Council.

4.2 Financial

- 4.2.1 The financial implications of the projects were covered in the report on the Medium-Term Financial Strategy made to Cabinet in February 2022.

4.3 Council Plan

- 4.3.1 The re-construction of the two main leisure facilities in Kenilworth is a key priority for the Council. The new facilities will significantly enhance the services available in the town and will encourage people to adopt healthy lifestyles.

4.4 Environmental/Climate Change Implications

- 4.4.1 The environmental and climate change implications of the new facilities have been the subject of previous reports to the Cabinet and to Council.

4.5 Analysis of the effects on Equality

- 4.5.1 Similarly, the inclusive nature of the designs of the two centres, which will provide facilities for all, has been the subject of previous reports.

4.6 Data Protection

- 4.6.1 It is important that the details contained in the private and confidential appendices to this report remain confidential as the details are commercially sensitive.

4.7 Health and Wellbeing

- 4.7.1 The new facilities will offer a step-change in the opportunities provided to local people to adopt healthy lifestyles.

5 Risk Assessment

- 5.1 This report refers to actions in the past, and therefore a Risk Assessment is not relevant.

6 Conclusion/Reasons for the Recommendation

- 6.1 A number of factors combined to create a substantial increase in cost between the non-binding Stage One Cost Estimate and the Stage Two agreed contract price. This report explains some of these factors and further detail is provided in the Private and Confidential Appendices to this report.

Confidential Appendices:

Appendix 1 – Castle Farm Tender Cost Movement Review

Appendix 2 – Abbey Fields Tender Cost Movement Review

Appendix 3 – Additional Budget Request Estimate

Appendix 4 – Tender Reconciliation

Report Information Sheet

Please complete and submit to Democratic Services with draft report

Committee/Date	Overview and Scrutiny Committee / 1 November 2022	
Title of report	Report on the reasons for cost increases in the Castle Farm Leisure Centre and Abbey Fields Swimming Pool projects.	
Consultations undertaken		
Consultee *required	Date	Name
Ward Member(s)		
Portfolio Holder WDC *	19/10/22	Councillor Andrew Day
Financial Services *	18/10/22	Richard Wilson
Legal Services *	18/10/22	Kieran Brehany
Other Services		
Chief Executive(s)	18/10/22	Chris Elliott
Head of Service(s)	18/10/22	Andy Jones
Section 151 Officer	18/10/22	Andrew Rollins
Monitoring Officer	18/10/22	Andy Jones
CMT (WDC)		
Leadership Co-ordination Group (WDC)	19/10/22	Andrew Day
Other organisations	18/10/22	Joshua Barber, Mace Consultancy
Final decision by this Committee or rec to another Ctte/Council?	No	Recommendation to :Cabinet / CouncilCommittee
Contrary to Policy/Budget framework	No	No/Yes
Does this report contain exempt info/Confidential? If so, which paragraph(s)?	Yes	No/Yes, Paragraphs : Appendix 1, 2, 3, 4
Does this report relate to a key decision (referred to in the Cabinet Forward Plan)?	No	No/Yes, Forward Plan item – scheduled for (date)

Accessibility Checked?	Yes	File/Info/Inspect Document/Check Accessibility
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