

Community Wealth Building  
Islington Town Hall, London N1 2UD

Report of: Cllr Diarmaid Ward, Executive Member for Finance, Planning and Performance .

Meeting of: Executive

Date: 22<sup>nd</sup> June 2023

Ward(s): Bunhill

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## Subject: Redevelopment of Finsbury Leisure Centre

### 1. Synopsis

- 1.1 The redevelopment of Finsbury Leisure Centre aims to replace the existing leisure centre with new leisure facilities and 200 new homes of which 100 will be council homes. This is an increase on the 176 home scheme proposed at the point of the last report to Executive. The scheme creates a masterplan for the whole site and includes a new medical centre and much improved public spaces. The Council also plans to make parallel investments in the neighbouring Ironmonger Row Baths, Toffee Park Adventure Playground, and Radnor Street Gardens.
- 1.2 Since commencement of detailed design in May 2022, the project has materially developed such that consultancy fees have also increased. The project therefore seeks approval for additional spend given the expanded scheme, time related delays and necessary preconstruction services until the end of design stage 3. The detail is included in two appendices. These are exempt due to commercially sensitive content.
- 1.3 To help mitigate construction cost risk, it is also proposed the Council enters into a Pre-Construction Service Agreement (PCSA) for the project. Total fees (excluding PCSA) represent 12.6% of the current forecast construction costs of £86m. This is a reasonable industry rate and excludes the effect of contingency, inflation and optimism bias on the construction cost.
- 1.4 Given the importance and scale of the project, further papers will come to Executive seeking approval at the end of design stage 3 to submit a planning application, and at the end of design stage 4 to enter into a contract to build. Project level governance

includes ongoing viability and gateway reviews, with additional reporting to Executive as required.

- 1.5 Total scheme costs are currently forecast to be £131.757m excluding optimism bias. A full assessment will take place to calculate how much optimism bias should be applied to the project in line with HM Treasury's Supplementary Green Book Guidance on Optimism Bias. This would apply additional costs anywhere between 2% and 24% based on the standard buildings within the scheme, less any existing contingency. The forecast total scheme cost already includes a £10.9m inflation provision and a £12.9m general contingency based on a costed risk register. Given existing risk mitigations, the assessment is not expected to apply the full bias adjustment.
- 1.6 The paper also notes that should the scheme go ahead, further capital funding of up to £21.860m (assuming maximum optimism bias) could be required of which £12.191m relates to the general fund and £9.669m to the HRA. At the maximum level this would require further general fund revenue budget of up to £1.2m per year to cover the cost of borrowing and in terms of the HRA the £550k additional cost of borrowing cost per year. This HRA element would be met by existing budget provision within the HRA. Approval for this additional budget would need to be sought prior to committing to construction contracts.

## 2. Recommendations

- 2.1.1 Subject to ongoing gateway reports and financial viability assessments, Executive is asked to:
  - a) approve commitment of up to £6.75m for fees and PCSA costs up until the end of design stage 3, including amounts already spent as described in Appendix 1 to this report, and summarised in Table 1. This represents an increase of £2.85m.
  - b) approve an increase in the capital budget of £2.65m in respect of fees up to design stage 2, reflecting an increase in budget from £1.6m to £4.25m funded by £0.200m from reduced costs of RIBA stage 3-4 and £2.450m additional borrowing.
  - c) approve the Council entering into a Pre-Construction Service Agreement, with an estimated value of £0.9m, subject to contract
  - d) note that additional Executive approval will be sought prior to submission of a planning application and prior to award of a construction contract.
  - e) note that the current estimated scheme cost through to construction is estimated at £131.757m (excluding optimism bias). There will be a need for additional funding to meet the optimism bias and this amount will be confirmed once a full assessment has taken place.

## 3. Background

### 3.1. Context

- 3.1.1 The Executive Key Decision Procurement Strategy for Design Team Appointment in January 2022 sanctioned the use of the Perfect Circle framework to appoint a design team based on an indicative programme, estimated cost and the associated viability assessment using an NEC 3 option G form of contract, as drafted by Pick Everard. It also provided delegated authority to the SRO. It also sanctioned the proposal to seek early contractor advise by way for example of a Pre-Construction Service Agreement (PCSA).

3.1.2 The project subsequently experienced material scope changes and programme extensions and which created a requirement for increased fee expenditure considered by the project board in February 2023.

### 3.2. Cost (Fees)

3.2.1 Appendix 1 (exempt section) sets out in detail the fee summary and proposal, based on a combination of known consultant fees and estimates of other services, covering design stage 0-3. It also indicates estimates consultancy service spend to RIBA stage 6.

3.2.2 The summary of costs is tabulated below and summarises the recommendation.

Table 1

Design stage/item	£ Delegated award estimate May 2022	£ Current Estimate (Actual and Quoted Estimates) April 2023	£ PCSA ITT estimate April 2023	£ Advised Total April 2023	Notes
RIBA stage 0/1 Strategic Definition / preparation and briefing	£3.9m	£4.25m		<b>£4.25m</b>	
RIBA stage 2 concept design					Includes £0.1m Quantity Surveyor (QS) estimates.
RIBA stage 3 spatial co ordination		£2.4m	£0.1m	<b>£2.5m</b>	Includes £1m QS estimates. ITT all QS estimated. Includes contingency.
RIBA stage 4 technical design		£2.0m	£0.8m	<b>£2.8m</b>	All QS estimated. Includes contingency.
Overall RIBA Stages 0 - 4		£8.65m	<b>£0.9m</b>	<b>£9.55m</b>	
<b>Sub-total 0 - 4</b>			<b>£9.55m</b>		
RIBA stage 5 manufacturing and construction		*£2.0m		<b>*£2.0m</b>	* QS estimates pending substantiation & discussion with contractor once appointed.
RIBA stage 6 handover		£0.2m		<b>£0.2m</b>	
RIBA stages 4 – 6	**£4.5m	£4.2m	£0.8m	<b>*£5.0m</b>	** excl. other support services

RIBA stages 5 & 6		*£2.2m			
RIBA stages 0 - 6	***£8.4m	£10.85m	<b>£0.9m</b>	<b>*£11.75m</b>	***Delegated award indicated actual cost may be c.£9.2m
<b>Total RIBA stages 0 - 6</b>				<b>*£11.75m</b>	

### 3.2.3 Cost Narrative

- Stage 0-2 fees are known in detail. They also include further stage 2 fees as a result of brief change and planning process delay and further work.
- Stage 2 spend to date is £2.8m. Quoted spend remaining is £1.45m including £100k of professional quantity surveyor (QS) estimates.
- Stage 3 fees are largely quoted but include QS estimates pending purchase during stage 3. Stage 3 fees include £1m of QS estimates.
- Stage 4 fees are QS estimates pending purchase during stage 4.
- Stages 3 & 4 also include a gross estimate of legal services which would be a call off service pending the availability of in-house resources. A net saving may be achieved. These are included as estimates in stage 3 & 4 spend.
- PCSA costs in stage 3 & 4 are QS estimates considered with the issue of the ITT pending tender return and purchase.
- Stage 5 client-side fees are estimated and include estimated support services. They have yet to be reviewed in detail and are subject to review.
- Stage 2 & 3 fee (contingency included stage 3 £0.105m) for additional services to support the current scheme.
- Stage 4 & 5 (contingency included at 10% £0.400m) within each of the stages 20% assumption of 12% total fees of construction cost.
- Total fees (excluding PCSA) represent 12.6% of the estimated construction costs of £86m (excluding optimism bias). This is a reasonable industry rate and excludes the effect of contingency and inflation on the construction cost.

3.2.4 Core consultant fees are based on the preferential Perfect Circle framework rates. Most of the appointments including support services are through the Perfect Circle framework.

3.2.5 Non-key officer (SRO) decisions are used for the small number of mini competition appointments i.e. PCSA and Legal Services.

3.2.6 Sensitivity analysis is ongoing with respect to construction inflation and open market sales rates.

## 3.3 Pre Construction Services Agreement

3.3.1 The project has developed a procurement strategy which has identified a preference for a two stage design and build tender. It has also identified the council's New Build Contractor Framework as the vehicle to appoint a contractor for the stage 1 Pre construction Service Agreement (PCSA).

3.3.2 The PCSA is parallel to consultancy fee activities but provides risk mitigation and additional cost certainty of the construction cost of the project by early non-binding engagement of contractor services. The service runs up until the end of stage 4, when an executive paper would be prepared advising the contractual construction cost (actual build) of the project.

### 3.4 Timetable

3.4.1 Please see table 2 below for the project timeline.

Table 2

Item	Date	Comment
Executive Report	June 2022	Sanction of fees to end of stage 3
Design Stage 2	August 2023	Including viability assessment
PCSA appointment	August 2023	Stage 3 & 4 activity
Full Business Case (updated)	August 2023	Initial, Interim and Full
Planning application	January 2024	13 week minimum determination
Design Stage 3	January 2024	Including viability assessment & Executive report
Design stage 4	June 2024	Including viability assessment & Executive Report.
Contractor appointment	July 2024	Pending end stage 4 Executive report.
Construction	November 2024 – 2026/7	Phased completion
Fit out	August 2027	

### 3.5 Business risks

3.5.1 Some design risk remains in stages 3 & 4. The risk register and costed risk register identify items that could have programme and cost implications.

3.5.2 Particular risk items include

- PCSA ITT returns higher than forecast.
- Planning – few remaining height & massing and daylight/sunlight items.
- Tenant & legal matters – lease closure required to mitigate fully risk of tenants requesting design change post stage 3, legal service estimate included in stage 3 & 4 fees.
- LBI decision process – programme delay may incur further work and/or cost.
- Programme – fast programme does not provide for unforeseen delays.

3.5.3 End of design stage 2, 3 & 4 each have a viability assessment. There is an opportunity to instruct cost savings at each of these stages. This in turn may reduce consultant fee costs in stages 5 & 6.

3.5.4 There is a consideration that should the scheme not proceed then costs up to £4.250m would need to be written off to the council's revenue budget. There is no budgetary provision for this so it will therefore reduce reserves by up to this amount.

### 3.6 Financial Viability/Affordability criteria

3.6.1 The scheme will be subject to a financial viability assessment at all gateway stages up to contract award. For the scheme to progress at each stage it must be deemed affordable, this means that sufficient general fund and HRA resources must be identified to fully fund the scheme in order for the scheme to proceed to the next stage.

3.6.2 An updated full financial business case will be produced to demonstrate Value for Money and affordability. The business case will follow an agreed format and will be delivered with the end of stage 2 viability assessment.

## 4 Implications

### 4.1 Financial Implications

4.1.1 The approved fees budget as at 23-24 budget setting, based on the most recent (November 2022) financial viability modelling, (which was informed by the cost consultant's assessment of construction costs and fees) is £8.400m. This covers all professional fees from stages 0 to 6.

4.1.2 This report at table 3.2.2 provides a revised estimate for all fees totalling £10.850m, leading to net growth/a budget gap of £2.450m. Note, this excludes the £0.900m of PCSA/ITT costs also included in the table at 3.2.2 as these costs are included in the construction cost budget.

RIBA Stages	Budgeted £m	Revised £m	Variance £m
0-2	1.600	4.250	<b>2.650</b>
3-4	4.700	4.400	<b>-0.300</b>
5-6	2.100	2.200	<b>0.100</b>
<b>Total</b>	<b>8.400</b>	<b>10.850</b>	<b>2.450</b>

4.1.3 The main variance relates to an overspend arising as at RIBA stage 2 of £2.650m. Cumulative spend to date, up to RIBA stage 2 is £2.839m. The report indicates at 3.3 that the forecast fees to RIBA stage 2 totalling £4.250m represent a quoted detailed assessment of the final outturn position and as such the project management assume there is no anticipated risk of further overspends in respect of RIBA stage 2.

4.1.4 The report seeks approval (at recommendation 2.2) to increase the capital budget to accommodate the increase in RIBA stage 2 fees totalling £4.250m. The increase in budget will be split between the GF (General Fund) & HRA (Housing Revenue Account) based on the gross construction cost split.

- 4.1.5 As the increase chargeable to the HRA will simply reduce the surplus in respect of open market sale receipts, this will reduce the amount available to contribute to the General Fund capital costs. As such the full impact of the RIBA stages 0-2 £2.650m increase will fall to the General Fund. Should further increases mean that the surplus in relation to Open Market Sales is fully utilised, then increases will start to impact on the HRA viability.
- 4.1.6 If the scheme does not proceed beyond RIBA stage 2 the above costs totalling £4.250m would need to be written off to revenue. There is no budget provision for this therefore £3.145m would need to be funded from HRA reserves and £1.105m from General Fund reserves.
- 4.1.7 There remains a significant risk that overspends could arise in the later stages. The report indicates at 3.2.3 that stage 3 includes £1.000m of estimated costs & £1.400m of costs based on a quoted detailed assessment of fees and is therefore reasonably certain. This leaves fees in respect of RIBA stages 3-5 currently estimated of £5.400m that are based on a less certain estimated assessment. These are more exposed to potential overspends. Albeit that the report indicates at 3.2.3 that a contingency allowance in the sum of £505k (9%) is included in these fee estimates (stages 3-5).
- 4.1.8 The RIBA stage 2 design freeze updated financial viability model will be submitted to the project board in due course. Progress of the scheme will be subject to meeting the affordability criteria as set out at paragraph 3.6.
- 4.1.9 Total budgeted and revised fees are split between the GF and HRA as follows based on gross construction cost split.

<b>Stages 0-6</b>	<b>HRA (74%) £m</b>	<b>GF (26%) £m</b>	<b>Total £m</b>
Budgeted	6.216	2.184	<b>8.400</b>
Revised	8.029	2.821	<b>10.850</b>
<b>Variance</b>	<b>1.813</b>	<b>0.637</b>	<b>2.450</b>

- 4.1.10 Whilst the recommendations at 2.1.1 seek to approve budgets and progress to incur expenditure in respect of RIBA stage 3 fees totalling £2.400m and PCSA costs to RIBA stage 4 totalling £0.900m, these approvals are subject to further gateway financial viability and affordability assessments.
- 4.1.11 If there is a decision not to proceed further with the scheme, all fees incurred prior to that point will be charged to revenue. At present, that total is around £4.250m. This will rise to £10.850m depending at which stage any decision was made.
- 4.1.12 The total estimated cost of the scheme is currently £131.757m (excluding optimism bias) The table below breaks down total scheme costs and illustrates the position.

	<b>Base Costs (excl Optimism Bias)</b>  £M
<b>Construction</b>	<b>£85.873</b>
<b>Fees</b>	<b>£10.800</b>
<b>Internal Capitalised Salaries</b>	<b>£1.825m</b>
<b>Other Development Costs</b>	<b>£9.587</b>
<b>Contingency</b>	<b>£12.881</b>
<b>Inflation</b>	<b>£10.791</b>
<b>TOTAL</b>	<b>£131.757</b>

4.1.13 The revenue implications of the borrowing is an annual payment of £1.926m by the General Fund and £484m from the HRA.

## **4.2 Legal Implications**

4.2.1 This Report seek authority to spend up to £6.75 million from the Capital budget up to design stage 3. Under RIBA stages this includes the following:

RIBA stage 0 strategic definition  
RIBA stage 1 preparation and briefing  
RIBA stage 2 concept design  
RIBA stage 3 spatial co ordination

Executive are to note estimated spend as set out in paragraph 2.2-2.8 of this Report.

For value over £5million Capital spend a decision must be made by the Executive. The Key Decision process must be followed.

4.2.2 The council has powers under Section 19 (1) of the Local Government (Miscellaneous Provisions) Act 1976 to provide such recreational facilities as it thinks fit including Indoor sports centres. The council as a local housing authority also has powers to provide housing accommodation by erecting houses on land held or acquired for that purpose under Section 9 of the Housing Act 1985. The council may appoint consultants to assist in discharging these functions under s111 of the Local Government Act 1972 as well as under the General Power of Competence set out in section 1 of the Localism Act 2011. The council may enter into such contracts under section 1 of the Local Government



(Contracts) Act 1997. The Corporate Director of Community Wealth Building has authority to award contracts paid for using capital money over £5,000,000 of Islington Council spend where authorised to do so under the Constitution or by a specific Executive decision (Procurement Rule 18.1.4).

- 4.2.3 The proposed procurement route is to call-off from both the Perfect Circle framework and the Council's Construction Contractors Framework by way of mini-competition for the PCSA which are both in compliance with the Regulations and the council's Procurement Rules.
- 4.2.4 In deciding whether to approve the additional expenditure sought in this report Members should be satisfied that it represents value for money for the council and that the project has the potential to be viable.

### **4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030**

The Environmental implications relevant to this key decision report concerns the procurement strategy of the consultants only, which effectively focuses on the policy and practice of the consultant companies and their offices, whose services the council chooses to procure. It should be noted that the opportunity to report on the full environmental design implications of the project design would take place when the key decision paper for the appointment of the main contractor is carried out, i.e., on completion of the design stages 1-4. The completion of the design stages 1-4 are facilitated by this key decision report.

The report sets out the evaluation criteria used in the tender process of prospective consultants. Associated with this are the scope of service and consolidated brief requirements. Within these, the council sets out its expectations with regard to consultant office policy and practice.

Specifically, the council expects that the offices will as a minimum be ISO 9001 and ISO14001 compliant. This is significant as it indicates that the company is able to quality assure its work and that its working practice uses an environmental management system (EMS) that indicates that it is environmentally ethical. The office should be able to demonstrate how its EMS helps establish policy and practice with quantifiable deliverables within the office. Neither of these however is a guarantee that the office is net zero. The council will ideally wish to see other office initiatives or circular economy practices relevant to achieving net zero carbon emissions actively engaged with e.g., DfT cycle to work scheme; rail card loan salary sacrifice scheme; environmental charity engagement. It would also include employment practice.

Specific requirements to be assessed as part of the Social Value evaluation will include

- Recruitment: recruitment practices highlight the significance of environmental design in the make-up of the organisation offering an attractive career path.
- Apprenticeships/professional practice - the expectation is that staff are encouraged to undertake vocational training that includes environmental and net zero awareness and skill sets.
- Work experience/supporting young people - the expectation is that this activity will also include environmental awareness and net zero activities (including outreach activities).
- Investing in staff - the expectation is that vocational training of all staff (including administration and support) will include environmental and net zero carbon.

Specific requirements to be assessed as part of the Social Value evaluation will include

- Structure & quality of proposed staff resources - the expectation is that the staff resources will include roles which require qualifications in environmental design or related.
- Demonstrated ability to deliver similar projects in the last 5 years - that staff will have demonstrated their ability to design and deliver environmental and low energy (net zero carbon) projects.
- Ability to fully meet the requirement and delivery date - programme related rather than environmental but allows the company to express its comprehension of the entire client brief, both in terms of specific design elements the entire project vision and strategic objectives.
- Environmental design and low energy design approach - clear evidence of that the approach is embedded within the office and tangibly delivered on.
- Health & Safety design - this evaluation is largely health and safety related though with tangible environmental concerns e.g., off gassing.

To enable the appropriate responses, the council has also written a Brief Consolidation Report, which outlines the designer's scope. This information will form part of the Invitation to Tender and the Employer's Requirements. The substance of the report concerns environmental factors as follows; low kWhr/m<sup>2</sup>/pa requirements; low co<sub>2</sub> emission requirements; Passivhaus accreditation (tbc); Bream Outstanding; product environmental conformity; circular economy demonstration. It should be noted that implicit in low energy requirements is the use of onsite renewable energy; approach to including the Bunhill CHP strategy and use of low co<sub>2</sub> mains infrastructure.

The gateway process of the design stages 1-4 and their outcomes will enable the council to conduct extensive peer reviews of the above criteria as a set of key performance indicators (KPIs), which will in turn enable the key decision reporting at the end of stage 4 in order to appoint a main contractor to build the project.

#### **4.4 Equalities Impact Assessment**

The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

Through discussion with the Equalities team, an Equalities Impact Assessment is not required at this stage. It is noted that as the design progresses through the design stages, a Full Equalities Impact Assessment should be developed ready for the key decision that will be required at the end of stage 4, before a contractor is appointed to build the project.

## **5 Conclusion and reasons for recommendations**

- 5.1 The decision is recommended to enable the proposed design programme, upon which the fees and costs are based, to proceed until the end of design stage 3 with no further delay and any associated costs that may incur.

- 5.2 It is essential that the design stages are fully funded stage by stage, notwithstanding the viability assessment sanction process at end of each stage. The recommendations ensure this clarity is provided.
- 5.3 The PCSA is parallel to consultancy fee activities but provides risk mitigation and additional cost certainty of the construction cost of the project by early non-binding engagement of contractor services. The service runs up until the end of stage 4, when an executive paper would be prepared advising the contractual construction cost (actual build) of the project.

**Appendices:**

- Pick Everard Fee Summary Note Revision 25 April 2023 Revision 17(exempt)
- LBI paper - Commentary on Costs to End of Stage 3 – May 2023

**Final report clearance:**

Authorised by:

Cllr Diarmaid Ward, Executive Member for Finance, Planning and Performance

Date: 14 June 2023

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