

# Finance and Resources Committee

10.00am, Thursday, 3 December 2020

Tron Kirk, Edinburgh

<b>Executive/routine</b>	<b>Executive</b>
<b>Wards</b>	11 – City Centre
<b>Council Commitments</b>	<u>2</u>

## 1. Recommendations

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- 1.1 That the Finance and Resources Committee:
- 1.2 Notes the current position regarding the existing short-term lease to Old Town Projects Limited;
- 1.3 Decides which of the two options presented in the report should be approved, taking into account the financial context of the City of Edinburgh Council as a direct consequence of the Covid-19 pandemic.

**Stephen S. Moir**

Executive Director of Resources

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## Tron Kirk, Edinburgh

### 2. Executive Summary

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- 2.1 This report provides an update on the Edinburgh World Heritage Trust (EWHT) proposals for the Tron Kirk and details the requirements for the Council to commit capital funding to the project.

### 3. Background

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- 3.1 The Tron Kirk is located on a prominent position on the Royal Mile at the junction of High Street and South Bridge. The property extends to 278sq m (3,000 sq ft) or thereby and is shown outlined red on the attached plan.
- 3.2 In late 2012, the Council were approached by Edinburgh World Heritage Trust (EWHT) to seek support for the redevelopment of the Tron Kirk. Their aspiration was to convert the building into an Edinburgh World Heritage interpretation and educational resource for visitors and the local community. Consequently, the Finance and Budget Committee, on 6 June 2013, authorised exclusive negotiations with EWHT on the grant of a long lease and noted that the Heads of Terms and funding activity detail would be provided through future update reports.
- 3.3 On 24 June 2014, the Economy Committee approved the detailed Heads of Terms for a 99-year lease and noted that the business plan projected that the majority of the capital funding would come from Heritage Lottery Fund (HLF), which would take two years to achieve. This decision was ratified by the Finance and Resources Committee on 30 July 2014.
- 3.4 On 18 August 2016, the Finance and Resources Committee considered an update report and authorised an extension to the two-year funding timescale to an ultimate long stop date of 31 October 2019.
- 3.5 On 8 February 2018, the Finance and Resources Committee considered options for the building and approved a short-term lease to EWHT who were to create a short-term use that was the first step towards delivering the long-term aspiration for the Tron comprising an initial prototype exhibition for both the Old and New Towns of Edinburgh, combined with an upgraded retail offer. EWHT considered this an important step in delivering the longer-term vision of converting the building into an

Edinburgh World Heritage interpretation and educational resource for visitors and the local community. At that time, Committee also approved changes to the long-term contractual documents to reflect further delays in funding and noted that the development proposals would now require a capital contribution from the Council albeit the amount was yet to be determined.

- 3.6 The Council entered into a lease with a subsidiary of EWHT (OTP) on 1 June 2018 to 31 May 2021 (with an option to extend for a further 12 months) at a rent of £20,000 per annum. The lease contains rolling quarterly break options, in favour of the tenant, from 1 June 2019.
- 3.7 In June 2019, the Council incurred capital expenditure of £180,000 to repair the roof following storm damage, which was funded from the Asset Management Works budget.
- 3.8 In late 2019, EWHT formally proposed changes to both the short-term leasing arrangements and longer-term development whereby Council financial assistance was required for both. This request was considered by the Finance and Resources Committee, on 5 March 2020, who approved the following motion:
- “Notes the options and agrees to explore the Council’s involvement in helping to fund the capital allocation of the public square improvements at Hunter Square as the project develops.*
- Agrees that officers work further with EWHT on a revenue solution, which removes the aspect of losses already incurred and project development costs which should not be borne by the Council.*
- Agrees to delegate to the Executive Director of Resources, in consultation with the Convenor and Vice Convenor of Finance and Resources, the approval of a revenue solution, using discounted rent.”*
- 3.9 EWHT terminated the short-term lease of the Tron on 1 March 2020. In late March 2020, the Covid-19 lockdown commenced.

## **4. Main report**

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- 4.1 The report of 5 March 2020 highlighted both the short-term revenue and future capital requirements from the Council. There has been a delay in implementing the approved motion due to Covid-19 lockdown, however, discussions have recently recommenced. The purpose of this report is to provide Committee with an update; assess the potential impact of Covid-19 on the proposals and previous Committee decisions; and clarify what is required in order for EWHT to have any prospect of securing significant HLF and other funding.

### **Short Term Proposals**

- 4.2 The modified request from EWHT is that the Council relets the building on a new rolling basis at a passing rent of £1k pa. Under the approved Motion, from March 2020, this has been discussed between the Executive Director of Resources and the Convenor and Vice Convenor of the Finance and Resources Committee and it

is considered that it can be accommodated. However, EWHT has indicated that they would only proceed with this in the event that the capital funding for the longer-term project is committed to as detailed below.

### Long term Proposals

- 4.3 While the business plan financial assumptions have not yet been revisited by EWHT to reflect any current or future impact of Covid-19, the position remains as reported in March 2020, i.e. EWHT have again indicated that Heritage Lottery Funding (HLF) would require the Council to be a formal and committed funding partner before they would consider financial support for the project. Consequently, EWHT has requested that the Council contributes 10% of the capital costs. On the basis of the current financial assumptions, this would equate to a capital contribution of £560,000.
- 4.4 The remaining capital projections as proposed to be raised from a combination of sources as detailed below current capital funding model supplied by EWHT:

Potential funder	Comments	Approximate percentage
NLHF	Remain a key player (EWH has recently received a major award for Graveyard work at Greyfriars)	20-30%
HES	Conservation of fabric	10%
CEC	Hunter Square/public realm via CCT	10%
Scottish Government	Interest in wider Scottish UNESCO designations	5%
UK Govt./Scottish Office	Interest in flagship Edinburgh projects	2%
Trusts & foundations	Interest in supporting city/Old Town	30-40%
EWH: HNWI's, supporters, corporates	Interest in supporting city/Old Town	10-20%

- 4.5 Following consultation with potential funders, EWHT consider that the Council is required to explicitly support and budget for the necessary capital contribution as the catalyst to unlocking future funding and have therefore again sought this commitment. To do so, the Council would have to commit to the funding and forecast the contribution in its Capital Budget Strategy.
- 4.6 The Council's current Capital Budget Strategy is being fully reassessed to reflect the impact of Covid; the wider economic outlook; and increased costs associated with decarbonisation. This will be presented to Committee in January 2021 and will forecast increasing costs on previous assumptions resulting in rising unfunded pressures such as capital investment necessary for community centres, as an example. Consequently, to commit to be an equity partner in the development of the Tron Kirk, to satisfy the requirements for any successful HLF funding by EWHT, will require the Council to forecast the expenditure in its revised Capital Budget Strategy.

- 4.7 The current estimated cost of 10% of the project is £560,000 but the business plan has yet to be updated to address the current and future impact of Covid-19 by EWHT. At this time, the options available to the Committee are:
- (a) Reconfirm the position from the outset in 2012/13, that the Council are not prepared to make a capital contribution to the project due to significant unbudgeted capital pressures.
  - (b) Instruct officers to forecast £560,000 towards the project and include it within the revised Capital Budget Strategy, when presented to Committee in January 2021. On this option, members should note that this is based on current business plans projections and that this figure is likely to rise if the business plan is refreshed on the existing proposals.
- 4.8 In summary, the Council has been consistent in its position since late 2012, in that, support for the project was predicated on the building being its' financial contribution. Several years later, it is now clear that the project cannot happen unless significant public funds are contributed to the project.

## **5. Next Steps**

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- 5.1 If option A is approved, EWHT have confirmed that they will not proceed with the project. On that basis the future of the building in both the short and longer term will need to be readdressed. The last passing commercial rent on the building was £45,000 pa (2016). Options for both the short and long term would be submitted to Committee in the new year if this option were approved.
- 5.2 If option B is approved, officers will write to EWHT confirming support and forecast the expenditure in the Capital Budget Strategy in January 2021. In addition, the building would be released to EWHT at £1k pa.

## **6. Financial impact**

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- 6.1 Option A will have no immediate financial impact on the Council.
- 6.2 Option B will require an initial £560,000 to be budgeted in the Council Capital Budget Strategy which will impact other projects. There will be a loss of revenue associated with the release to EWHT which, based on the last passing commercial rent, would be £44,000 pa.

## **7. Stakeholder/Community Impact**

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- 7.1 Ward elected members have been made aware of the recommendations of the report.

## **8. Background reading/external references**

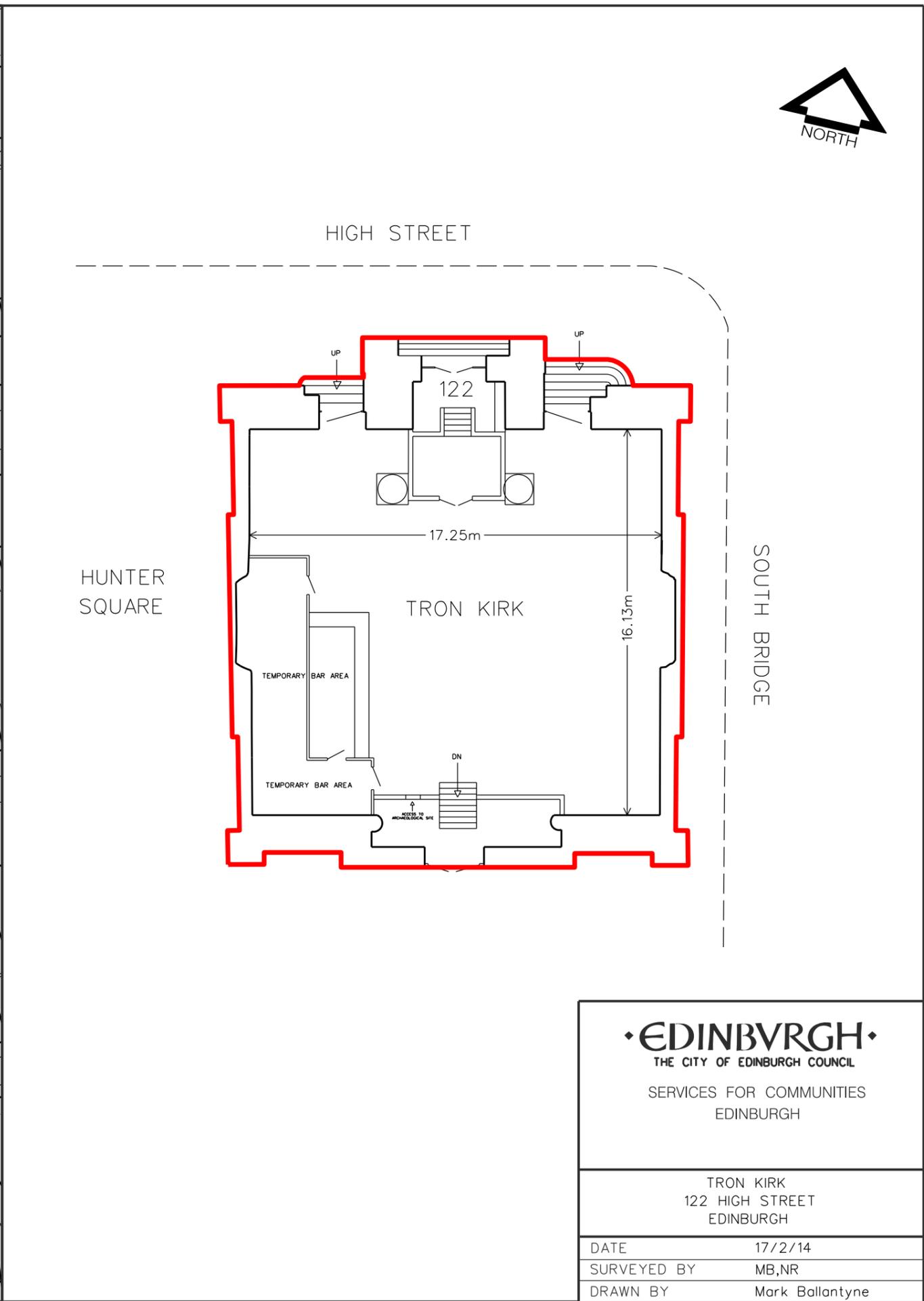
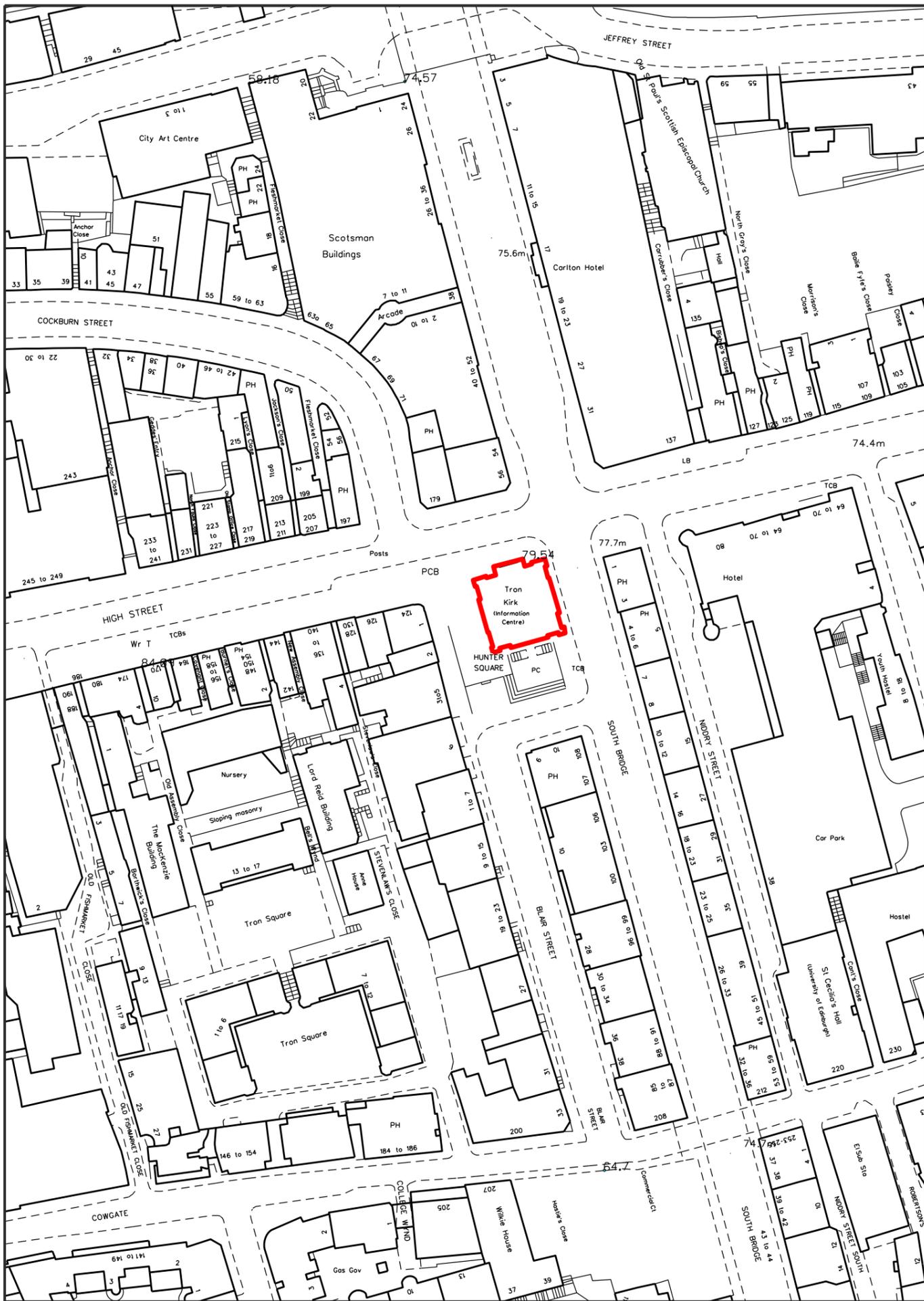
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8.1 None.

## **9. Appendices**

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9.1 Appendix 1 - Location Plan



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SERVICES FOR COMMUNITIES EDINBURGH	
TRON KIRK 122 HIGH STREET EDINBURGH	
DATE	17/2/14
SURVEYED BY	MB,NR
DRAWN BY	Mark Ballantyne
SCALE	1:200 @ A3 SIZE
NEG. NO.	A4/136a.dgn

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