

# Finance and Resource Committee

**10.00am, Thursday, 3 March 2022**

## **Approval to Proceed to Construction Works Stage at Macmillan Hub, Pennywell**

<b>Executive/routine</b>	<b>Executive</b>
<b>Wards</b>	<b>Almond, Forth</b>
<b>Council Commitments</b>	1,2,10,31,32,33,34,35

### **1. Recommendations**

1.1 It is recommended that Finance and Resources Committee:

- 1.1.1 Approves the continuation of the Delivery Agreement with Robertson Construction Group Ltd to encompass the works stage for the construction of Macmillan Hub, Pennywell, subject to the conditionality set out in this report; and
- 1.1.2 Notes the anticipated works stage value of £15.489m.

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Executive Director of Place

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# Report

## Approval to Proceed to Construction Works Stage at Macmillan Hub, Pennywell

### **2. Executive Summary**

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- 2.1 The development of the MacMillan Hub (the Hub) is an important element of the wider strategic regeneration of Pennywell and Muirhouse. It will provide an opportunity to create a building shared between the Council and North Edinburgh Arts (NEA) as anchor community organisation, with the overall aim to provide education, lifelong learning, arts, culture and employment support for this area of the city. It will deliver on the Council commitment to “live well locally” by providing a range of services to the immediate and surrounding communities.
- 2.2 The project is ready for the construction stage and this report seeks approval for the continuation of a Delivery Agreement with Robertson Construction Group Ltd (Robertson) to encompass the works stage for the construction of The Hub.

### **3. Background**

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- 3.1 The regeneration of Pennywell and Muirhouse is a long-term strategic programme for the Council, its partners and the local community. The demolition of unsuitable properties has made way for over 900 new homes, the new Craigroyston High School and Pennywell All Care Centre.
- 3.2 The Council awarded a contract for the redevelopment of Muirhouse Shopping Centre on 27 October 2016. The first phase of 12 affordable homes, three retail units and the public square was completed in May 2019. The second phase of 40 affordable homes and seven retail units is ongoing, with completion expected in 2022. A third phase, consisting of 96 affordable homes and three retail units, will commence on completion of the second phase. The sequence has been deliberately staggered to ensure that some retail provision remains in the area throughout construction.
- 3.3 The project originally envisaged the replacement of Muirhouse Library with a new library and commercial accommodation as a fourth phase. As design and consultation progressed and the full potential of the site has been understood, this phase has expanded with a plan to create The Hub.

- 3.4 The Hub will see arts and learning brought together under one roof in a striking new building offering the community in North Edinburgh an extensive range of services. Designs for the new building are shown at Appendix 1. These include:
- 3.4.1 New enterprise, workshop, learning and creative studio space;
  - 3.4.2 An expanded café, youth area and shared atrium;
  - 3.4.3 New community library, learning and skills centre;
  - 3.4.4 New early years centre supporting 185 local children; and
  - 3.4.5 Six new affordable homes including outdoor amenity space.

### **Timeline of Progression**

- 3.5 On [20 August 2020](#), NEA application for a Community Asset Transfer (CAT) was approved by the Policy and Sustainability Committee, conditional on entering into a Development Agreement with the Council. Council officers have been working with NEA since that time to develop plans to deliver The Hub.
- 3.6 On [23 July 2020](#), Policy and Sustainability Committee received an update on the proposed Regeneration Capital Grant Fund (RCGF) pipeline projects which included details of The Hub and the Council's intention to work with NEA to secure this funding.
- 3.7 On [3 June 2021](#), the Housing Homelessness and Fair Work Committee agreed to submit a bid for £2m to the RCGF to meet the funding gap for the shared elements. The Scottish Government confirmed in December 2021 that this bid was successful.
- 3.8 On [25 June 2021](#), Housing Homelessness and Fair Work Committee agreed to award the project £250,000 from the Place Based Investment Programme (PBIP).
- 3.9 On 2 September 2021, Robertson were appointed to undertake enabling works with an option for procession to works stage should the project proceed. A Delivery Agreement was entered into under the existing SCAPE Framework Agreement for Major Works.
- 3.10 The current estimated completion date for the whole project is summer/autumn 2023. A project team is in place comprising suitably qualified personnel to ensure all relevant quality and cost control standards are met.

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## **4. Main report**

- 4.1 On 26 October 2021 the proposals for The Hub, developed in partnership with NEA, received detailed planning consent. On site, demolition of the existing Muirhouse Library and adjacent empty retail units and homes commenced in October 2021.
- 4.2 The new Hub will be the first of its kind in the city, providing a number of Council services under one roof. The new early years centre at the Hub will be the largest in Edinburgh, with capacity for 185 children from 0-5 years old. With a focus on tackling poverty in the surrounding communities, alongside childcare, users of the Hub will have access to a comprehensive range of learning and skills development,

studio and workspaces, and an integrated programme of education and employment support. In addition, the current NEA offering around arts and cultural activities for all ages will be expanded and will complement the lifelong learning resources in the Hub. The building itself is based around the concept of sharing services and resources as a much more efficient, locally based and sustainable way of providing access to council, community and third sector support.

- 4.3 The project comprises a new building which will adjoin NEA as well as refurbishment of their existing building with a shared entrance leading to both facilities. The estimated capital cost for the project is £15.489m.
- 4.4 On 24 February 2022, the Council approved the Sustainable Capital Budget Strategy 2022-2032 that included confirmation that capital funding is in place for all Council facilities. The new homes, library, skills and employment hub are met from Housing Revenue Account (HRA) and General Fund budgets. Funding for the Early Years centre is provided from draw down of the Scottish Government 1,140 grant. The Council's contribution to shared costs will also be met from these sources. A breakdown of costs is set out in Appendix 2.
- 4.5 The funding strategy is based on the principle that the Council will only pay for its own facilities, with the cost of NEA facilities being met from third party fundraising. Notification was received, in December 2021, that £2m of Scottish Government RCGF has been awarded to the project. This leaves a total of £1.870m of additional funding required for NEA to meet the cost of their own facilities. This is split between £0.994m for essential shared works and £0.876m for works to the existing NEA building. The funding of the shared elements will be prioritised ahead of the refurbishment works. A professional fundraiser has been employed by NEA to secure the required funds to supplement existing expertise within the NEA Board. An application has been made to the JESSICA Scotland fund for £0.5m with confirmation that the project is eligible, and funding should be available for distribution. Trusts and Foundations are being targeted for up to £0.3m, with 10% secured to date from the Robertson Trust. Many of these will be much more likely to succeed following the securing of the RCGF monies. A campaign for crowdsourcing/'buy a brick' has a target of just under £0.2m to meet the remainder of the gap for the shared elements.
- 4.6 The Hub is effectively a partnership between the public and third sector and both the Council and NEA will work together in fundraising efforts, for example, submitting joint bids when the opportunity arises. Regular updates will be provided on all fundraising activity
- 4.7 The revenue costs required to deliver the facility and the enhanced Early Years' service can be contained within existing revenue budgets for the previous Muirhouse Library, Scottish Government Early Years 1,140 hours revenue grant with the balance provided from revenue savings from the exit of surplus properties (such as Westfield House or Portlee Day Centre).

## **Contractual Form of Delivery**

- 4.8 Outline design work up to the planning submission stage was carried out under the original contract with Robertson to a value of £0.588m. This contract is earlier referenced in paragraph 3.2 and commenced in 2016.
- 4.9 As the scope of the project changed, and the ambition to create The Hub was fully realised, a new contractual arrangement was required.
- 4.10 The SCAPE Delivery Agreement was entered into on 2 September 2021, using an existing SCAPE Major Works Framework Agreement and designed in stages to meet timeline requirements and provide a level of flexibility to the appointment.
- 4.11 The first stage of enabling works and detailed design work amounted to £0.890m and were completed in early 2022.
- 4.12 The second stage of up to £15.489m is requested for approval by Finance and Resources Committee in order to take the project forward to construction.

## **Risk Management**

- 4.13 The main risk in proceeding with the project at this stage is that NEA has yet to secure all of the external funding required to meet its costs. As outlined above, the RCGF funding awarded by the Scottish Government will hopefully assist NEA in securing smaller additional amounts of match funding. A Development Agreement is in place which sets out how the costs will be apportioned between the Council and NEA for the shared elements of the build. Assuming NEA are able to raise the £0.994m, the funding gap will be closed, and the Council will be able to recover this money from NEA.
- 4.14 If, however, NEA are ultimately unable to raise sufficient funds then the Place capital budget allocation would be required to meet all (or part) of the £1.870m of NEA's costs for refurbishment of their building or the shared works in the new building. In order to mitigate this risk, a number of mechanisms are proposed as follows:
  - 4.14.1 The NEA fundraising will be used to cover the essential shared works (£0.994m) before being used to cover the refurbishment costs;
  - 4.14.2 The contract will make provision for the NEA refurbishment works (£0.876m) to be removed from the scope of the works if sufficient funds (over and above the £0.994m required for shared costs) have not been raised prior to a mutually agreed date between the Council, NEA and the appointed contractor;
  - 4.14.3 A standard security over the NEA land and building, which is the subject of CAT, will be required so that the Council has an asset of equivalent value to the forward funding should any debt ultimately need to be recovered.
- 4.15 These provisions have been added to the Development Agreement between the Council and NEA. The requirement for a standard security can be included within the Development Agreement without impacting on the approved CAT transfer to

NEA as the security, if needed, would not be implemented until the CAT is concluded.

- 4.16 Should there be any delays to awarding the works stage of the contract, retendering of the main work packages will be required. Costs are likely to increase in this scenario and are likely to exceed currently agreed budgets. Delays to the project would also mean continuing unmet childcare provision in this area and would put the Early Years funding at significant risk, as it is required to be spent in 2022/23. The secured RCGF of £2m will also be at risk as this is predicated on the project as proposed and must be committed prior to October 2022, which approval of this report will secure.
- 4.17 If the project does not proceed at this time, it is likely that it would have to be redesigned. The costs of the works, to date, for design and certain enabling works (approx. £1m) would likely have to be written off and a new scheme prepared. A stand-alone nursery could be designed (assuming funding is still available) and then progressed through planning and delivery, although this would leave fragmented library provision in the area. Under this scenario it would not be possible to deliver on the ambitions of a partnership building that brings real change to the community.

## **5. Next Steps**

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- 5.1 If the report recommendations are approved, an instruction to proceed will be issued to Robertson and variations made as required to the Delivery Agreement to reflect a works appointment.
- 5.2 Following a period of mobilisation, construction will commence in April 2022. It currently anticipated that work will be completed by summer/autumn 2023.
- 5.3 The contract will be managed by the Development and Regeneration team within the Place Directorate.
- 5.4 The project team will work to develop the shared management, maintenance and operation arrangements for the new building to ensure the benefits of collocation are maximised.

## **6. Financial impact**

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- 6.1 The report recommends the continuation of a Delivery Agreement with Robertson to encompass the works stage of the construction of the Hub, at a cost of £15.489m. The funding package assumes use of Scottish Government Early Years 1,140 hours grant funding from reserves, RCGF funding, PBIP funding, CAT capital receipt and a contribution from NEA resulting in a net requirement in Council capital expenditure of £3.517m, which can be contained within approved HRA and General Fund capital budgets.
- 6.2 The loans charges associated with this over a 30-year period would be a principal amount of £3.517m and interest of £2.692m, resulting in a total cost of £6.209m

based on an assumed loans fund interest rate of 4.0%. This represents an annual cost of £0.207m to be met from the corporate and HRA loans charge budgets. Borrowing will be carried out in accordance with the Council's Treasury Management Strategy.

- 6.3 The Early Years element is wholly funded by the Scottish Government 1,140 capital funding which will be drawn down from reserves however this is conditional on expenditure taking place by the end of financial year 2022/23. The current construction programme assumes completion of the entire Hub by summer 2023 therefore this is currently acceptable. However, if timescales were to change, approval of grant variation would be required from the Scottish Government.
- 6.4 The one-off revenue costs for core ICT infrastructure are estimated at £0.042m and recurring revenue costs are estimated at £1.079m. The one-off revenue costs will be met equally from Scottish Government 1,140 revenue grant and revenue savings from the exit of surplus properties (such as Westfield House and/or Portlee Day Centre). The recurring revenue costs can be met from existing budgets for Muirhouse Library of £0.084m, Scottish Government Early Years 1,140 revenue grant of £0.938m and revenue savings from the exit of surplus properties of £0.057m. The revenue costs of the library service are unchanged from the previous location and can be contained within existing revenue budgets.
- 6.5 Revenue costs relating to NEA will be met from their existing budgets and income streams. NEA are in good financial health according to a recent financial probity check carried out by the Council's financial assessment team.

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

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- 7.1 NEA are an anchor community organisation in the area. Consultation has been ongoing on the regeneration of Pennywell Town Centre and improvements to the community facilities since around 2008, with demonstrable support for the new building and services it will deliver.
- 7.2 The new building will form part of the General Fund and HRA Capital Programmes, addressing Council commitments on affordable housing, sustainability, poverty and prevention. It will ensure growth and regeneration and delivered in a way that supports place making and inclusive growth.
- 7.3 The delivery of the building will support the Council to move towards sustainable construction. The designs for the building are focussed on energy efficiency and carbon reduction. This is primarily achieved through enhanced fabric and building air tightness in order to minimise heat loss and reduce heating requirements. The current strategy proposes a non fossil fuel heating and hot water system driven primarily by air source heat pumps. The energy performance rating for the building is expected to be 'A'. Cycle access and storage is provided with minimum parking to encourage the use of walking and cycling to and from the building.
- 7.4 A tailored package of community benefits will be delivered from employability, skills, education and outreach categories.

- 7.5 The contractors and all sub-contractors will pay the Real Living Wage, and this is reflected in Delivery Agreement paperwork.
- 7.6 An integrated Impact Assessment (IIA) has been completed identifying the positive impact of the project on the Community and protected characteristics.

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

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- 8.1 None.

## **9. Appendices**

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- 9.1 Appendix 1 – Architect Visualisations.
- 9.2 Appendix 2 – Capital Cost Breakdown.

## Appendix 1 – Architects Visualisations



1 View from Pennywell Road, looking west, taking in Macmillan Square in the foreground



2 Resident's amenity space and new artist's studios



3 -Aerial view from north-west showing early years external play area

## Appendix 2 – Capital Cost Breakdown

Element	Est Cost (inc contingency)
Early Years	£6,542,535
Essential shared works	£3,418,835
North Edinburgh Arts - Refurbishment	£876,466
Library, Employment and Skills hub	£2,732,615
Affordable Housing	£1,768,600
<b>Works Costs</b>	<b>£15,339,051</b>
Project Costs (quality control etc)	£150,000
<b>Total</b>	<b>£15,489,053</b>