

Finance and Resources Committee

10.00am, Thursday, 8 September 2022

Macmillan Hub – update on funding position

Executive/routine Wards Council Commitments	Executive Almond/Forth
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1. Recommendations

- 1.1 It is recommended that the Finance and Resources Committee:
 - 1.1.1 Notes the progress made with the project from the previous report to Committee on 3 March 2022; and
 - 1.1.2 Approves Option 3, as identified in the report, to forward loan fund the remaining project budget shortfall subject to the cost recovery arrangements being agreed with North Edinburgh Arts.

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Report

Macmillan Hub – update on funding position

2. Executive Summary

- 2.1 This report provides an update on the construction of the Macmillan Hub project following its conditional approval by Finance and Resources Committee on [3 March 2022](#). It provides details of North Edinburgh Arts (NEA) fundraising to date and requests approval to proceed with the work as planned in order to preserve the overall intended outcomes of the project.

3. Background

- 3.1 On 3 March 2022, the Finance and Resources Committee approved the award of a construction contract for the delivery of a new community hub at Macmillan Square Edinburgh. The hub is being delivered in partnership with NEA, a local charitable organisation and key community stakeholder.
- 3.2 The hub is the focal point of the regeneration of Pennywell and Muirhouse, a long term local and national objective with the root aim of tackling significant deprivation in the area. The new hub will include an early years centre for 185 children, a library and skills hub, affordable homes and an expanded NEA facility.
- 3.3 The construction works commenced in April 2022 and are programmed to be complete in Autumn 2023. Good progress is being made with the construction with the foundations and main drainage in place and the partial demolition of the NEA existing building complete.
- 3.4 The contract award report of 3 March 2022 identified a gap in NEA funding of £1.87m which took into account funding already secured, for example, through the Scottish Government's Regeneration Capital Grant Fund (£2m). Of the £1.87m, £0.994m related to the overall structure of the building and it was agreed that the Council would front loan fund this element in order that any issues with NEA funding would not impact on delivery of the other elements. The remaining £0.876m refurbishment costs were required to be raised by NEA and they have engaged a professional fundraiser for this purpose.
- 3.5 The construction contract award was subject to conditions on NEA funding whereby if they were unable to raise the full amount of funding (£1.87m) by a given date then the refurbishment element of their project (£0.876m) would be omitted from the

contract. In these circumstances, a standard security would also be required in order that the Council would hold an asset of equivalent value to any shortfall in the front loan funding element (£0.994m) to allow that debt to be recovered in the future.

4. Main report

- 4.1 NEA were invited to present to the hub project board on 14 July 2022. At that meeting, NEA detailed their progress with fund raising to date. 113 applications are pending with charitable trusts and foundations, and meetings with key city philanthropists have been arranged for late August and September. The City Wide cultural bid to the Levelling Up Fund is also pending a decision with a value of £1.295m, however, the determination timescales for this and other current fund raising activity is beyond the cut-off date for de-scoping the NEA works from the contract. The amount secured at this time is approximately 20% (£0.365m) of the total £1.87m. This leaves an overall shortfall of £1.505m. The Council has already agreed to forward loan fund £0.994m although the expectation was that any funding secured would be used to cover these costs in the first instance.
- 4.2 The deadline to request the de-scoping of the refurbishment works is principally driven by the contractor and was set as 8 August. This was to allow the contractor to make any required changes to designs and orders whilst maintaining the target date and cost for overall completion of the project. Engagement with the contractor is ongoing to secure an extension to allow the full implications to be considered by Committee.
- 4.3 The de-scoping of the refurbishment works could threaten the overall project aims as it would leave large areas of the NEA facility incomplete and, most likely, incapable of beneficial use. It would have a negative impact on the wider user experience of the new hub with potential accessibility implications if parts of the building are not considered safe for occupation.
- 4.4 There is also a high risk that if the works are de-scoped and then re-scoped once funding is secured, that NEA will incur significant cost increases along with time implications. The cost consultant for the project has indicated that the costs could double and around 38 weeks would be added to the build programme.
- 4.5 In the light of the above challenges, work has been ongoing with both NEA and the contractor to explore alternative approaches which has resulted in three options being identified:
- 4.6 Option 1 – De-scope as originally envisaged – The contractor has agreed that the decision on whether or not to proceed with the original savings package can be taken following this Committee decision although cancellation fees of approximately 5% may apply in relation to some aspects of the work to be removed from the contract. Proceeding with this option would result in the challenging situation stated above where completing the project retrospectively will become even more difficult.

- 4.7 Option 2 – Proceed with reduced de-scoping package – This would, for example, remove floor finishes and painting and decorating elements from the contract. The savings are limited as a result and are estimated at £250k. This would, however, be a more practicable arrangement than Option1 as it would be easier to revisit these elements later in the project or after the current contract is complete. It would likely, to a degree, mitigate some of the impact of Option1 but it is still a less than efficient way of delivering the project.
- 4.8 Option 3 – Proceed with the full project scope – Under this option the Council would agree to forward loan fund the whole project and revise the development agreement with NEA accordingly to introduce a repayment plan. This would allow the building to be properly completed and, in the event of failure by NEA to repay the amount due, the Council would have an asset that could be let to another party.
- 4.9 Accordingly, it is recommended that the funds raised by NEA to date should be put towards the project with the Council front loan funding the remaining elements of the project. The Council will set a long stop date for the loan to be repaid, for example, 24 months from the signing of the development agreement between the Council and NEA.
- 4.10 The Council and NEA will continue to work closely to secure funding in the interim with an aim of covering the loan costs as soon as possible.

5. Next Steps

- 5.1 Subject to Committee approval the contractor will continue to build out the original plans.
- 5.2 NEA will report monthly to the Council on fundraising progress.
- 5.3 Updates will be provided to Committee via the Business Bulletin.

6. Financial impact

- 6.1 This report sets out additional capital expenditure of £0.876m for the unfunded costs of the NEA refurbishment. This will be offset by existing fundraising income of £0.365m, resulting in a requirement of £0.511m to be met initially from the General Fund capital budget. NEA will be required to repay this amount to the Council and the standard security provisions will remain in place to offset this financial risk.
- 6.2 In the event that the NEA payment is not received, the loans charges associated with the capital expenditure over a 30-year period would be a principal amount of £0.511m and interest of £0.419m, resulting in a total cost of £0.930m based on an assumed loans fund interest rate of 4.25%. This represents an annual cost of £0.031m. Borrowing will be carried out in accordance with the Council's Treasury Management Strategy.

7. Stakeholder/Community Impact

- 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

- 8.1 [Approval to Proceed to Construction Works Stage at Macmillan Hub, Pennywell](#) - Finance and Resources Committee, 3 March 2022.

9. Appendices

- 9.1 None.