

ANGUS COUNCIL

POLICY AND RESOURCES COMMITTEE – 2 DECEMBER 2014

BRECHIN AND FORFAR COMMUNITY CAMPUS PROJECT UPDATES

REPORT BY THE STRATEGIC DIRECTOR – PEOPLE

ABSTRACT

This report provides a progress update in relation to both the Brechin and Forfar Community Campus Projects.

1. RECOMMENDATIONS

It is recommended that the Policy and Resources Committee:

- (i) note the update in relation to both the Brechin and Forfar projects;
- (ii) in respect of the Forfar project, authorise the Head of Legal & Democratic Services, or in her absence, the Service Manager – Legal Services in consultation with the Chief Executive, Strategic Director - People, and the Head of Corporate Improvement & Finance:
 - to execute, deliver and perform the necessary contract documents (the Funders' Direct Agreement, the Collateral Agreements, the Independent Tester Contract, the Insurance Proceeds Account Agreement, the Project Agreement and any other necessary documentation) in respect of the project on behalf of Angus Council; and
 - to enter into an advance works agreement, if required and agreed with Hubco.

2. ALIGNMENT TO THE ANGUS COMMUNITY PLAN/ SINGLE OUTCOME AGREEMENT/ CORPORATE PLAN

2.1 This report contributes to the following local outcomes contained within the Angus Community Plan and Single Outcome Agreement 2013-2016:

- Our children and young people are confident individuals, effective contributors, successful learners and responsible citizens;
- We have improved the health and wellbeing of our people and inequalities are reduced;
- Individuals and families are involved in decisions which affect them.

3. BACKGROUND

3.1 Reference is made to Report 254/13, approved by the Education Committee at its meeting of 18 April 2013, which provided consultation feedback and sought procurement authority for the Forfar Community Campus Project.

3.2 Reference is also made to Report 624/13, approved by the Education Committee at its meeting of 21 November 2013, which provided details of a 'group based' funding approach identified by the Scottish Government/ Scottish Futures Trust, applicable to Councils who had, at that time, more than one revenue project being part-funded from 'Scotland's Schools for the Future' Investment Programme, and provided a progress update in relation to both the Brechin Community Campus Project (the "Brechin project") the Forfar Community Campus Project (the "Forfar project").

3.3 Reference is also made to Report 262/14, approved by the Policy and Resources Committee at its meeting on 10 June 2014, which provided a progress update in relation to the Brechin project and the Forfar project; declared an area of land at Forfar Academy surplus to requirements; and approved the ring fencing of the capital receipt from the sale of said land.

4. CURRENT POSITION

4.1 Brechin Community Campus

4.1.1 Financial Close

Enabling works, including upgrading the Banks, were completed in the early part of June. The main works continued thereafter through the issue of a Letter of Intent to Hubco.

Financial Close was achieved on 28 August 2014, and the total estimated out-turn cost is £26.547m (as per Report 262/14).

4.1.2 Construction Progress

Construction work is progressing on schedule. Site management is of a high standard and positive relationships have been developed between construction management staff and the school, as well as the local residents. A number of site tours with staff and pupils have been held and opportunities for community groups to visit the site are also possible by arrangement.

4.1.3 Consultation/ Engagement

A programme of staff engagement activities is being developed to progress with the transition from a 'school' to a 'community campus' environment. Similar engagement with community groups will take place in the near future. The purpose of these programmes is to develop a positive ethos within the school and community towards functioning together in the new campus.

4.1.4 Community Benefits

Hubco are also progressing with the community benefits package which they have committed to deliver as part of the project. For example, the targets include:

- Work experience placements
- Curriculum support activities
- Graduates and apprentices
- Jobs advertised through local employment vehicles
- Training opportunities

4.1.5 Project Timetable

Hubco have updated the timetable throughout the process and the current position is set out below:

Stage	Programme Date
Construction Phase 1	June 2014 to February 2016
Decant to new Building	February/ March 2016
Phase 2 - Demolition of old building	April 2016 to July 2016
External works/new car parking	August 2016 to October 2016

4.1.6 Decant Planning

A staff working group for the project is established and will continue to meet during the construction phase to carefully plan out the logistics to support the migration to the new facilities. Robust arrangements will be developed to prioritise learning and teaching, and to ensure there is no disruption to pupils' education during the transition.

4.2 Forfar Community Campus

4.2.1 Planning Application

Full planning permission for the project was approved by the Council's Development Standards Committee on 3 June 2014.

4.2.2 Consultation Update

Officers attended the Forfar Community Council meeting on 19 June to provide a project update and held a meeting for parents/ carers and members of the public on 24 June. The latest project information was presented and the plans were available to view, while officers were also available to answer questions.

4.2.3 Enabling Works

As indicated in report 262/14, it has been deemed prudent to enter into an enabling works agreement in advance of Financial Close. This was required to install a new surface water drainage pipe on land at Heatherstacks Farm. This will assist in ensuring the main contract works can be progressed quickly after Financial Close, including dealing with ground water conditions.

4.2.4 Hubco Process

Hubco's Stage 2 Submission was lodged with the Council on 7 October 2014. A review of the documentation has been completed and the Stage 2 approval has been issued. In addition, officers have attended a workshop with Scottish Futures Trust and Scottish Government representatives to demonstrate that the project has been developed working towards achieving the 'Scotland's Schools for the Future' programme goals.

It is expected that Financial Close will be achieved during December 2014 (section 4.2.5 below refers).

In the event it appears this will not be achieved, it may be possible to enter into an advance works agreement with Hubco. This would allow the main works to commence on site in advance of Financial Close and minimise any delay to the project timetable. It would also mitigate against a potential inflation increase (also refer to risk section below).

Notwithstanding that possibility, Scottish Futures Trust e-mailed the Council on 21 November, indicating that an issue with national accounts classification has arisen which must be resolved prior to reaching Financial Close on any hub DBFM projects. The issue arises from the introduction of the new European ESA10 statistical approach in September this year, and in particular new guidance on its implementation only recently received by SFT. The issues are technical and relate to the governance arrangements that apply within the EU. SFT is working to give the Council clarity that relevant elements of the Hubco structures are already consistent with the latest guidance or if there is a need to implement any amendments to the structure to give that clarity. It is anticipated that this clarification from SFT will be available shortly (also refer to risk section below).

4.2.5 Project Timetable

Hubco have updated the timetable throughout the process and the current position is set out below:

Stage	Programme Date
Financial Close	December 2014
Construction Phase 1 (new building)	December 2014 to December 2016
Decant to new Building	Xmas/ New Year 2016/17
Construction Phase 2 (demolition of old school and external works)	January 2017 to September 2017

4.2.6 Council Affordability Position

There has been extensive dialogue with Hubco regarding the cost of the project in order to mitigate the increased costs included in Report 262/14. While design development has progressed to meet the needs of users, the updated total estimated out-turn cost, based on Hubco's Stage 2 Submission, is £38.344m. This is £0.606m less than the previously reported estimate and includes:

- Construction costs

- Council direct costs (e.g. planning fees, site investigations)
- Enabling works
- Council design/ decant requirements
- Council risk allowance

This improved position reflects benefits derived from partnership working, along with Hubco's procurement strategy, which was aligned to maximise opportunities/ potential benefits from the Brechin project procurement arrangements.

The financial implications section of this report summarises the current overall funding position to support the updated project costs identified above.

4.2.7 Consultation/ Engagement

There has been significant consultation with a range of stakeholders in order to refine the design and specification to this stage. Similar to the Brechin project, it is also proposed to develop a programme of staff engagement activities to progress with the transition from a 'school' to a 'community campus' environment. Similar engagement with community groups will also be arranged in due course.

4.2.8 Next Steps

The next steps in the project are focussed on achieving Financial Close and progressing with the main construction works, including the option for an advance works agreement.

Community benefits derived from Hubco's partnership approach will also be implemented during the construction phase of the project, and consultation/ engagement arrangements will be progressed as specified above.

5. FINANCIAL IMPLICATIONS

Capital Costs

- 5.1 Sections 4.1.1 and 4.2.6 above, respectively outline the current estimated out-turn costs for the Brechin and Forfar projects. The overall funding position can be summarised as follows:

Item Description	Brechin	Forfar	Total
Total Estimated Out-turn Cost	£26.547m	£38.344m	£64.891m
Less Scottish Government Support	£15.626m	£20.907m	£36.533m
Less SportScotland Grant	n/a	£1.500m	£1.500m
Less Capital Receipt	n/a	£0.900m	£0.900m
Net Cost to Angus Council	£10.921m	£15.037	£25.958m
Available Angus Council Funding	£12.000m	£15.130m	£27.130m
Estimated Funding Headroom			£1.172m

- 5.2 The above table highlights an improved position compared to that presented in Report 262/14, with an estimated funding headroom of £1.172m now being predicted (previously this was estimated to be £0.320m). The final position will not be known until Financial Close, however, it is unlikely to vary significantly from this latest update. This £0.852m increase arises as a result of the cost savings of £0.606m noted in section 4 above and a £0.246m increase in Scottish Government grant funding for the Forfar project, due to the timing of Hubco's Stage 2 Submission.
- 5.3 It is highlighted that the Council's £27.13m funding package includes £1.25m that was previously agreed to be provided by the People Directorate through prudential borrowing. This is covered further in the risk section below.
- 5.4 SportScotland have not yet determined the Council's £2m application to support the enhanced sports/ leisure facilities. In line with previous reports, the value of £1.500m has been used for budgeting purposes, which is reflected in the above table. This is also covered further in the risk section below.

- 5.5 In addition, it is intended to utilise the £100k in the Council's common good fund (currently identified to support provision of a synthetic sports pitch), augmented by fundraising by the Forfar Sports Association, to support this sports pitch provision as part of the Forfar project.
- 5.6 While discussions have taken place with Scottish Futures Trust representatives regarding the application for additional funding support towards the 'abnormal' ground conditions discovered at the Forfar site, it has been indicated that it is unlikely that any additional Scottish Government funding will be made available for that aspect.

Revenue Costs

- 5.7 Members will be aware from previous reports on this matter that it was the SFT's original intention that both the Brechin and Forfar projects would be Design, Build, Finance & Maintain (DBFM) contract approaches. As a result of the SFT's move towards a Group Funding approach (Report 624/13 refers), Brechin is now a traditional capital funded project to be fully funded by the Council while Forfar is a DBFM project to be funded by the SFT / Council. The Forfar project will, therefore, ultimately result in an annual Unitary Charge payment being made by the Council for provision of the building and related services once it is handed over by HubCo. A significant element of of this Unitary Charge will be supported by the SFT through annual government grant support over the 25 year period of the contract. Up until the current stage of development, the funding for both projects has been considered by the SFT as traditional capital projects for simplicity of funding support calculations. With regard to the Forfar DBFM it is only at the current point, nearing Financial Close, that HubCo is required to provide the Council with a financial model detailing the Unitary Charge that will arise and SFT will provide estimated annual government grant support figures. This is highlighted as, while the overall capital costs are noted above as being within the available funding parameters, work remains to be finalised into how this will convert into Unitary Charge costs/ grant support, and thus the residual cost required to be addressed by the Council annually.
- 5.8 Over and above the construction costs of the Forfar project, the Council will also be required to meet fully itself as part of the annual Unitary Charge, life cycle maintenance and facilities management costs once the building is handed over. These costs are currently estimated to total £0.486m per annum and will require to be factored into the future years budget setting process for the Communities and People Directorates.
- 5.9 The Council will also require to meet directly revenue costs associated with the operation of the new facilities including heating, lighting, national non-domestic rates (NDR), etc. at the Forfar and Brechin campuses. As has been highlighted as a risk in previous reports, NDR were considered likely to increase significantly for both the Brechin and Forfar projects in light of the expanded footprint of the new campuses and on the assumption that the District Valuer takes a similar approach to that of Montrose Pool and bases this upon a proportion of the construction costs. Work is ongoing to assess the likely level of NDR for the new facilities with external advisors. The current working assumption is that the NDR bill across the two campuses will total £1.0m, which is circa £0.6m higher than the current NDR budget for those functions which will be accommodated in the new facilities. These will also require to be factored into the future years budget setting process for the Communities and People Directorates.

6. OTHER IMPLICATIONS

6.1 Risks

- 6.1.1 The final costs will not be fully established until Financial Close and there is a risk that the estimated funding headroom identified in this report will not be fully realised.
- 6.1.2 As noted above, there is a risk in the relation to the amount of Sportscotland funding that will be made available to the Council to support the Forfar project. Initial discussions with SportScotland representatives indicated that a minimum amount of £1m would be made available, with the potential for this to increase pending the outcome of specific clarifications from the Council. That information was duly issued to Sportscotland, however, at the time of writing this report, there has been no update or confirmation from SportScotland. In the event that only £1m was made available, this would reduce the funding headroom identified in this report from £1.172m to £0.672m.

- 6.1.3 There is a risk that the capital receipt for the surplus land at the Forfar site is not fully realised. However, a relatively cautious approach has been adopted regarding the level of capital receipt anticipated. It is anticipated that the surplus area of site will be placed on the open market for sale during 2016.
- 6.1.4 The capital funding package assumes that £1.25m will be forthcoming through Prudential borrowing from the People Directorate. Given the challenging financial climate that has endured since this commitment was undertaken it may not be possible for the Directorate to identify the additional savings necessary to deliver this funding.
- 6.1.5 In the event the Council enters into an advance works agreement with Hubco, it would be at an advanced stage whereby the main contract agreement is nearly concluded. The Council would only be exposed to risk in the event the parties did not execute the contract, in which case the Council would be required to underwrite the costs expended by Hubco, however this aspect would be capped. The risk to the Council is therefore low.
- 6.1.6 In addition, progress to achieve Financial Close, or entering into an advance works agreement, will be dependent upon the outcome of the position in relation to the ESA10 accounting issue. It is anticipated that this information will be available relatively quickly, however, while progress towards achieving Financial Close will be maintained, there is now a risk that the Council will be unable to achieve either Financial Close or enter into an advance works agreement until the implications of this are understood. It is therefore possible that this may have an impact on the timetable set out in section 4.2.5 above.

NOTE: No background papers as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

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