

SKEGNESS TOWN COUNCIL

REPORT TO: COUNCIL
6TH MARCH 2019
BY: TOWN CLERK
SUBJECT: Tower Gardens Community Building

PURPOSE:

- To approve the Community Building final Business Plan and associated construction costs.
- To seek the approval to apply for a Public Works Loan Board (PWLB) loan
- To confirm that there is no intention to increase the precept for the purpose of funding the loan repayments.
- To approve entering into a contract with GF Tomlinson within the SCAPE Regional Construction Framework.
- To agree a press statement

1 BACKGROUND

- 1.1 This report and attached Business Plan (**Appendix 1**) represent the culmination of more than 18 months of work to bring forward deliverable plans to develop a Community Building in Tower Gardens. On 16th January 2019 Council approved the draft Business Plan subject to the final construction costs and minor amendments. Following approval, the plan was published on the Council's website so that Skegness residents had a final opportunity to review and comment on the plans, prior to Council seeking borrowing approval and the letting of the construction contract. No further comments have been received.
- 1.2 The table below sets out the major milestones that have been achieved and those remaining

MAJOR MILESTONES	WHEN
Council's "in principle" decision to build a Community Building and to open discussion with the SCAPE Framework Design and Build Contractor	6 September 2017
Council decision to consult residents and the wider community regarding the project principles and the intention to borrow £1.5m to fund the project	1 November 2017
Council decision to proceed with project following public support.	6 December 2017

Council decision to open negotiations with East Lindsey District Council regarding the asset transfer of Tower Gardens to enable the project to proceed.	6 December 2017
Engagement of SCAPE Framework Design and Build Contractor to undertake Feasibility	7 December 2017
Contractor's Feasibility Report RIBA Stage 1	16 March 2018
Decision to Proceed to Design Stage – RIBA 2-4	4 April 2018
East Lindsey District Council agree in principle freehold asset transfer of Tower Gardens and other assets	28 June 2018
Public consultation on design and future building use	1 to 31 August 2018
RIBA Stage 3 Design Approved	26 September 2018
Planning Application Submitted	October 2018
ELDC and STC formally approve a transfer of land and property assets valued at £1.179m (including Tower Gardens) from ELDC to STC	5 December 2018
Planning Consent Granted	20 December 2018
RIBA 4 Technical Design Complete	20 December 2018
Contractor Cost Proposals	25 January 2019
Property Group Review Cost Options	1 February 2019
Final costs received and verified by Gleeds	25 February 2019
Council Approval Meeting	6 March 2019
Apply for Borrowing Approval	7 March 2019
Sign Delivery Agreement	8 April 2019
Contractor Mobilization	15 April 2019
Start on site	16 May 2019
Completion	10 January 2020

2 PROJECT NEED & JUSTIFICATION

- 2.1 The need to transform this derelict space has been established over many years from studies by consultants in 2009-11, the 2015 Community Led Plan, the Emerging Neighbourhood Development Plan and site-specific consultation. The need is evidenced in the Business Plan through the Project Background (pages 8-11), Strategic context (pages 12-15) and Project Vision & Design (pages 16-23).
- 2.2 The Business Plan refers to the Council's corporate objectives in section 2 and sets out the strategic context in section 4 which includes the environmental factors and target beneficiaries.

- 2.3 These sections of the Business Plan set out the background, reasoning and justification for proceeding with the project as has been discussed and debated by Council for many months.
- 2.4 With current UK wide economic uncertainty, such a project will help to demonstrate that investment is occurring in Skegness and it is open for business. In support of the Public Services (Social Value) Act 2012, the Framework agreement requires the contractor to demonstrate that there is a social value equivalent to 20% of the contract value delivered into the local community. This can be through employing local people on the scheme or can be delivered through work with local schools, social enterprise or working with micro businesses. This would add value back into the local area worth around £290,000. This will be measured and validated by the SCAPE Framework organisation as part of the contractor KPIs.

3 PROJECT DETAIL (WHAT IS BEING DELIVERED AND THE BENEFITS)

- 3.1 Section 5 of the Business Plan (pages 16-31) and associated appendices, sets out the vision, specification and design of the new building and the associated plans for Tower Gardens. These designs are what the planning consent and costs are based on (please note detailed engineering design is not included here).
- 3.2 Section 5 also sets out the project structure and responsibilities, the people resources and other stakeholders.
- 3.3 The outcomes for the community and issues being addressed are set out in pages 17-18 of the Business Plan.

4 FINANCIAL IMPLICATIONS AND AFFORDABILITY

- 4.1 At the start of the project the Council based its project budget with the assumption that the Council would borrow £1,500,000 from the PWLB. This is the basis on which consultation with Skegness residents was undertaken. Following the delivery of the full technical design and the contract costs to deliver the specification, the Council will need to borrow £1,460,000 which is within the target borrowing amount. Approximately 17% of the total development costs has been set aside within Council's own funds. Based on the PWLB loan calculator on 26th February 2019, the annuity repayment cost would be £70,575 per annum compared to the budget allowance of £74,500.
- 4.2 A summary of the total project costs and funding sources is set out below, with full capital and revenue costings set out in Section 6 of the Business

Plan and the associated appendices. The costs have been subject to detailed external review by Gleeds Cost Management Ltd, part of Perfect Circle. Their Guaranteed Maximum Price Report is attached at **Appendix 2**.

Cost Item	Costs	Status			
	Ex VAT				
Design	£106,115	Committed			
Construction	£1,458,371	For Approval			
*Contingency <small>(recommended by Technical Project Manager to be set at 5% of design and construction)</small>	£78,220	This will be used for project risk management purposes only			
Professional Support (Technical Project Mgt, cost checking and Health & Safety responsibilities)	£28,126	Fully committed			
Professional Support (Clerk of Works, Technical Project Mgt, and Health & Safety responsibilities)	£50,517	Committed at time of construction contract			
			Funding		
			2018/19 Accounts	2019/20 Accounts/ Reserves	Borrowing
*Total Maximum Development Costs	£1,721,349		£118,175	£143,174	£1,460,000
Building Start Up (Equipment)	£45,000			£45,000	
TOTAL PROJECT	£1,766,349		£118,175	£188,174	£1,460,000

- 4.3 Section 6 of the Business Plan also sets out the procurement method (page 32), the basis of capital costs, assumptions made in relation to the revenue costs (pages 34-36) and considers VAT implications (pages 34).
- 4.4 A cashflow forecast is set out below and also appears in the Business Plan (page 38). This shows how the Council will manage the payment of project costs, including VAT, together with the draw down of the loan from the PWLB and VAT recovery. Council's total reserves excluding in year

reserves (money from precept and other income) are sufficient to cover the point of maximum outflow which is anticipated to be in September 2019 if the project starts in accordance with the programme of works. Cashflow is currently monitored by the B&R Committee as part of the Quarterly Governance Report, but during the project duration cashflow will be reported monthly to the appropriate committee or to Council when there is no committee meeting.

Cashflow Forecast														
	PAID 2018/19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	TOTAL
Contract Sums	£89,537	£42,716	£126,523	£214,731	£307,344	£307,344	£201,276	£145,630	£87,140	£42,246	£0	£0	£0	£1,564,487
Technical Project Mgt	£28,126	£5,610	£5,610	£5,610	£5,610	£5,610	£5,610	£5,610	£5,610	£5,637	£0	£0	£0	£78,643
Building Start-up	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£25,000	£20,000	£0	£45,000
VAT	£23,532	£9,665	£26,427	£44,068	£62,591	£62,591	£41,377	£30,248	£18,550	£9,577	£5,000	£4,000	£0	£337,626
VAT Recovery		-£23,532	£0	-£36,092	£0	£0	-£169,250			-£90,175			-£18,577	-£337,626
														£0
Loan Draw Down	£0	-£42,716	-£126,523	-£214,731	-£307,344	-£307,344	-£201,276	-£145,630	-£87,140	-£27,296				-£1,460,000
Monthly Cash Flow	£141,195	-£8,257	£32,037	£13,586	£68,201	£68,201	-£122,263	£35,858	£24,160	-£60,011	£30,000	£24,000	-£18,577	
Cumulative Call on Council Budgets and Reserves	£141,195	£132,938	£164,975	£178,561	£246,762	£314,963	£192,700	£228,558	£252,718	£192,707	£222,707	£246,707	£228,130	

- 4.5 Affordability and the means by which Council ensures it can meet its financial obligations particularly in respect of making loan repayments, is set out on pages 37-39 of the Business Plan. This considers scenarios in respect of interest rate rises and any unforeseen expenditure or loss of income and sets out the approach Council will take in the unlikely event this should occur.
- 4.6 The Council's medium-term budget 2018/19 – 2022/23 (**Appendix 3**) includes the summary revenue implications of this project. This includes the revenue and reserve funding shown in 4.2 above. The PWLB repayments section within the budget is highlighted in bright yellow for easy identification. The funding to meet the PWLB repayments has been transferred from the pre-existing Business Plan budget and so the precept **is not** being increased to meet this cost.
- 4.7 For clarity, the precept will be increased in 2019/20 by £33,656 for purposes other than this project. This reflects an increase in employee costs of £21,155 and the additional cost of maintaining amenity areas at £13,969, less the extra £2,000 funding to be received from LCC in respect of amenity verges together with other smaller changes in income and expenditure.

PRECEPT INCREASE EXPLANATION		
Item	Total Increase	Band D Equivalent
Employee Costs	£21,155	£3.74
Amenity Areas	£13,969	£2.47
Other minor changes	£529	£0.09

Less Amenity Verge Fund	(£2,000)	(£0.35)
TOTAL	£33,653	£5.95
Extra yield due to change in tax base	(£12,315)	(£2.18)
NET ANNUAL PRECEPT CHANGE FOR A BAND D PROPERTY		£3.77 (about 7p pw or 4.75%)

4.8 This Council does not have any pre-existing loans or financial liabilities.

5 CONTRACT DETAILS

5.1 As approved pre-design, the contract under which the development will be undertaken is the SCAPE Regional Construction Framework Delivery Agreement with GF Tomlinson who are the awarded contractor for Midlands North Intermediate. The Delivery Agreement (**Appendix 4**) is based on Option A of the NEC4 Engineering and Construction Contract which provides a priced contract and activity schedule. The contractor is subject to regular checks and financial stability reviews by the SCAPE organisation.

5.2 The NEC contract on which the delivery agreement is based provides a number of options to allow some flexibility as to how the contract is managed. Certain options are pre-determined by the SCAPE Framework. Some areas proposed by the contractor have been renegotiated in conjunction with the Technical Project Manager without additional costs. No additional legal advice has been sought on the basis that the contract is pre-negotiated and the areas set out below are those open to negotiation. Ultimately it is for Council to balance risks and costs. These are covered in full in the Business Plan but the main ones are shown below:-

Clause	Implications
Price adjustment for inflation shall not apply	If prices of materials change (other than tariffs or taxes) the price will remain the same
Changes in the law shall apply	If as a result of Brexit new tariffs or regulations apply, this might change the price
Delay damages shall not apply	To claim damages the Council would have to pre-calculate and demonstrate the actual financial damage caused by delay. The bottom-line price of the contract would also increase to protect the contractor's interest. There could

	be reputational damage of a delay, but the reputational damage of the contractor within the SCAPE framework is likely to be much higher than the damage to the Council.
Ultimate Holding Company Guarantee shall apply	Having this will give greater assurance in the case of non-delivery and greatly reduces the need for a performance bond
Performance bond shall not apply	The success in obtaining a holding company guarantee reduces the need for this which would add to the contract price.

5.3 There are also other options within the contract that can be applied by the agreement of the Client and Contractor which are also covered in the Delivery Agreement

5.4 The Delivery Agreement can only be signed once funding is secured and the development site transfer is completed. It is proposed that the finalisation of minor details be delegated to the Town Clerk to avoid any delays to the programme which could have cost implications.

5.5 It is therefore proposed subject to successful borrowing approval and completion of the site transfer, that the Council enter into the Delivery Agreement with GF Tomlinson at the price set out in this report.

6 PROJECT CONSULTATION AND ENGAGEMENT

6.1 The Council has undertaken extensive consultation with residents and the public at large regarding the site and the proposed project and costs. The details of this are set out in the Business Plan (pages 9 -11) and appendix B of the Business Plan.

6.2 Section 8 of the Business Plan (pages 40-43) sets out how the Council intends to continue community engagement and consultation through construction and beyond completion.

7 RISKS

7.1 The risks associated with this project will be managed through the Council's own well-established Risk Management Process and through a specific Construction Risk Register maintained by the Technical Project Manager in association with both the Construction Contractor and the Council.

- 7.2 Full details of the Risk Management process, Council Risk Register and Construction Risk Register is in section 10 of the Business Plan (pages 44-48) and the associated appendices F & G.

8 BORROWING APPROVAL PROCESS

- 8.1 Borrowing approval is obtained from the Ministry of Housing, Communities and Local Government via the Lincolnshire Association of Local Councils (LALC). A copy of the completed application form ready for signature by the Mayor and Town Clerk, once approved is attached in **Appendix 5** to this report.
- 8.2 The completed signed form, with copies of supporting documents will be submitted to LALC who then will check and endorse the application if everything is in order and forward the application to the MHCLG.
- 8.3 It is anticipated that the borrowing approval will take 3 to 4 weeks to be considered.

9 PUBLICATION OF THE DECISION TO BORROW TO THE PUBLIC.

- 9.1 A press statement setting out Council's decision will be issued. A draft statement based on the recommendations is attached (**Appendix 6**) for consideration. This report and appendices have already been published on the Council's website. Following the decision, a copy of the draft minutes, together with the press statement will also be made available on the website.

10 RECOMMENDATIONS

- 10.1 For significant decisions of this extent a recorded vote is required.
- 10.2 Council is recommended to:-
- a) Approve the Community Building Final Business Plan and associated construction costs.
 - b) Seek the approval of the Secretary of State for Housing, Communities & Local Government to apply for a PWLB loan of £1,460,000 up to 30 years for the purpose of funding the capital costs associated with the construction of a Community Building in Tower Gardens. The annual loan repayments will come to around £70,575.
 - c) Confirm it is not intended to increase the precept for the purpose of the loan repayments.

- d) Approve the application form and supporting information required by the Secretary of State for Housing, Communities & Local Government as appended to this report.
- e) To approve entering into a contract with GF Tomlinson using the SCAPE Framework NEC4 Engineering and Construction Contract Delivery Agreement once funding is secured and the transfer of assets is complete.
- f) To authorise the Town Clerk to finalise any minor amendments to the delivery agreement
- g) To authorise the two Councillors and the Town Clerk to sign and/or seal the agreement as is required by law.
- h) To approve the Press Statement for immediate release.

FOR DECISION

For information relating to this report please contact The Town Clerk, Town Hall
Skegness or email

info@skegnesscouncil.org.uk

Background papers – Minutes and Reports available on [website](#)

Report to Council 06/02/19 – Asset Transfer Update (item 12)

Report to Council 16/01/19 – Community Building Draft Business Plan (item 11)

Report to Council 05/12/18 – Asset Transfers (item 17)

Verbal Report to Council 07/11/19 – Community Building & Asset Transfer (item 19)

Verbal Report to Council 03/10/18 – Asset Transfer Progress (item 13)

Report to Ex-Ord Council 26/09/18 – Community Building Plans (item 4)

Report to Council 05/09/18 – Name the Building (item 15)

Report to Ex-Ord Council 10/07/18 – Community Hub/Asset Transfers (item 4)

Report to Council 04/04/18 – Tower Gardens & Community Hub (item 14)

Report to Council 07/02/18 – Town Clerk Miscellaneous Report (item 15)

Report to Council 06/12/17 – Tower Gardens Pavilion & Budget Consultation (item 15)

Report to Council 01/11/17 – Communications Plan Tower Pavilion Project (item 13)