

ROTHESAY PAVILION UPDATE REPORT

1. EXECUTIVE SUMMARY

- 1.1 At its' meeting on 22 February 2024, *'The Council gave consideration to a report providing an update on Rothesay Pavilion.*

'Decision

The Council agreed the recommendations contained within the submitted report subject to a report being brought back to the Council to determine whether the project should proceed and on what basis following consideration at the Policy and Resources Committee on 9 May 2024.

'g) Request that Officers bring a further report to the Policy and Resources Committee on 9 May 2024 with an update on the tender, the Rural Growth Deal Treasury 5 Business Case and the Rothesay Pavilion Charity Business Plan to inform a decision on the future of the Pavilion and delegate power to the Committee to determine whether the project should proceed and on what basis.'

This report provides Policy and Resources Committee with an update on (1) the Rothesay Pavilion Tender Report for the works to complete Stages 2 and 3, (2) the contributions of other funders including Rural Growth Deal (**RGD**) Treasury 5 Business Case (**FBC**), and (3) the Rothesay Pavilion Charity (**RPC**) Business Plan.

- 1.2 The Tender Price for the Stage 2 and Stage 3 was submitted by Robertson Construction Central West (**RCCW**) on 26-April in line with programme. The submitted tender price is **£16.463m**, resulting in an Anticipated Final Cost of **£22.304m**, which is some **£1.745m higher** when compared with the forecast AFC for Stage 2 and Stage 3 of **£20.559m** as considered by Council on 22-Feb. This £1.745m should be considered a 'worst case' position and consistent with this type of contract / tender there is now a scrutiny and value engineering process taking place, examining line by line costs to ensure the tender correctly reflects the specification and does not include anything that is "over specified". Officers are actively engaged with the contractor, who is engaging very positively and assisting in this process, to look at how the gap may be reduced and an update on that work will be provided to the Council meeting in June.
- 1.3 The Rothesay Pavilion is a key component of the RGD programme of works, accounting as it does for all of the anticipated spend in the first two years of the deal, along with **£11.559m** of additionality. The FBC is a

key document in securing formal commitment to the RGD by the Scottish and United Kingdom Governments (**SG / UKG**).

- 1.4 The revised Rothesay Pavilion OBM 2024-2037 was submitted to officers on 13 February 2024 and Members will recall that the financial information provided cause for concern. Officers have been working with the RPC and our consultants, Stantec, since then to assess the detail and robustness to determine how sustainable the model is, and whether or not improvements can be made.
- 1.5 Confirmation has been received from the National Heritage Lottery Fund (NHLF) that an additional £1.2m will be made available for the project in letter exchange 24 January 2024. Positive discussions are continuing with Historic Environment Scotland (HES) and Highlands and Island Enterprise (HIE) but no confirmed funding uplift at this stage. However, we do anticipate this to be confirmed by the Council Meeting on 27th June.

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2. INTRODUCTION

2.1 On 22 February 2024, the Council approved capital funding of £8,858,993 towards the cost of the Stage 2 and Stage 3 works, subject to the following conditions being satisfied:

- The Tendered Price for the works, and the subsequent Anticipated Final Costs, must be affordable.
- That the Full Business Case for the project is endorsed by the Scottish and United Kingdom Governments, and that the projects inclusion in the Rural Growth Deal is formalised, thereby securing £9.000m in capital funding.
- The Operational Business Model of the Rothesay Pavilion charity should, as far as practical, reduce the risk exposure of the Council i.e. that it is financially sustainable and reduces the on-going reliance on the Council as a funding source.

2.2 This report provides Policy and Resources Committee with an update on Rothesay Pavilion, specifically the Tender Report for the works to complete Stages 2 and 3, including the AFC for the works and their affordability, progress with the RGD and the FBC, and the updated OBM in respect of the running of Rothesay Pavilion.

3. RECOMMENDATIONS

3.1 Policy and Resources Committee are asked to consider the contents of the report and agree that a more detailed report will be brought forward for consideration and decision by the Council at its meeting on 27 June 2024.

4. DETAIL**4.1 TENDER SUBMISSION**

4.1.1 On 22-Feb-24 the Council considered a report which forecast a construction cost of £14.718m, resulting in an AFC of £20.559m, and to which the Council would commit additional capital funding of £8.859m, with the balance coming from the RGD and existing funding partners.

4.1.2 The Tender Price for the Stage 2 and Stage 3 was submitted by Robertson Construction Central West (**RCCW**) on 26-April in line with programme. The submitted tender price is **£16.463m**, resulting in an Anticipated Final Cost of **£22.304m**, which is some **£1.745m higher** when compared with the forecast AFC for Stage 2 and Stage 3 of **£20.559m** as considered by Council on 22-Feb. This £1.745m should be considered a 'worst case' position and consistent with this type of contract / tender there is now a scrutiny and value engineering process

taking place, examining line by line costs to ensure the tender is correctly reflects the specification and does not include anything that is “over specified”. Officers are actively engaged with the contractor, who is engaging very positively and assisting in this process, to look at how the gap may be reduced and an update on that work will be provided to the Council meeting in June.

- 4.1.3 Officers have initiated their tender assessment and scrutiny, including:
- A review of each individual Works Package Tender return to confirm that it conforms to the Council’s requirements and the pricing schedule is correct.
 - A presentation by RCCW to the Head of Commercial Services, PPMS Programme Manager, the RPN Project Manager, the Project QS, and colleagues from Procurement, Commercial and Contract Management.

The initial feedback on these matters has been positive and officers are working to try and deliver an improved output from the Tender assessment which will be reported to the Council on 27 June.

4.2 THE RURAL GROWTH DEAL, FULL BUSINESS CASE UPDATE Full Business Case (FBC)

- 4.2.1 Treasury 5 business cases require to be endorsed by both Central Governments in advance of any draw down of RGD funding.

The RGD Project Management Office (**PMO**) have commissioned the consultancy Stantec to assist with the preparation of the FBC for stages 2 and 3 of the Rothesay Pavilion. A first draft FBC was submitted to Central Government on 15 of November 2023 with feedback provided in January 2024. The FBC has been revised to take on board and/or address comments and feedback and was re-submitted to Central Governments on 7 May.

- 4.2.2 Central Governments have advised that, subject to the assessment being positive, and the Government’s being prepared to endorse the FBC, they will provide the necessary assurance to the Council for its meeting on 27 June.

Rothesay Pavilion Charity Operational Business Model

- 4.2.3 Argyll and Bute Council have supported the RPC to prepare a robust business plan for the Pavilion which includes detailed market analysis and financial assumptions. For the purposes of the FBC, forecast profit and loss for the RPC has been calculated for the first 5 years which highlights a positive position and is being submitted to UK Government.

- 4.2.4 In terms of the business model, a fundamental consideration is the Pavilion’s level of self-sufficiency. Given the financial pressure on Local Government and continued lack of economic certainty nationally, a high degree of self-reliance on fundraising and business development is clearly necessary.

4.2.5 For the RPC to operate sustainably, they will need to attract multiple income streams to sustain their operation, including strong commercial trading performance together with a combination of net income generating programming, alongside normal grant-funded activity. These fund-raising opportunities will only present themselves once the building is operational.

4.2.6 RPC, along with the Council and the other funding partners, recognise the critical importance of a viable, and sustainable OBM. All funding partners are currently assessing the detail of the financial modelling and the assumptions which underpin it. Council officers will bring forward their assessment and analysis in the report to Council on 27 June, which will focus on the strengths, weaknesses, opportunities and threats to the successful implementation and on-going development of the RPC's financial position.

4.3 PARTNER FUNDERS

4.3.1 Confirmation has been received, in a letter exchange of 24 January 2024, from Heritage Lottery Fund (HLF) that an additional £1.2m will be made available for the project. Positive discussions are continuing with Historic Environment Scotland (HES) and Highlands and Island Enterprise (HIE) - who intend to consider at their Board on 25th June - but not yet confirmed funding uplift at this stage. However, we do anticipate both funding partners positions to be confirmed by the Council Meeting on 27th June which has the potential to contribute £2.7m towards completion of the project.

5. CONCLUSION

5.1 There are three key issues that affect the future of Rothesay Pavilion as summarised below:

- The affordability of the Stage 2 and Stage 3 works, taking account of the previous Council decision to allocate additional capital funding of £8.859m
- The UK and Scottish Governments approval of the Treasury 5 Business Case, to release £9m from the Rural Growth Deal. An Operational Business Model which is realistic and sustainable in the long term, and which seeks to reduce the reliance on revenue funding support over time
- Confirmation on the contributions of funding partners, HIE, HLF and HES totalling £2.7m.

6. IMPLICATIONS

6.1 Policy – The Rothesay Pavilion project formed part of the original CHORD Programme and was a Single Outcome Agreement priority. It is also a key component of the Rural Growth Deal, and it is considered to be a key economic driver for Bute and wider Argyll that can help with our population challenges going forward.

6.2 Financial – As set out in the report.

- 6.3 Legal – Potential recourse to legal remedies in respect of contracts, warranties, etc.
- 6.4 HR – None
- 6.5 Fairer Scotland Duty – See below.
- 6.5.1 Equalities – EqSEIA has been completed as part of the Rural Growth Deal Full Business Case refresh.
- 6.5.2 Socio Economic Duty – EqSEIA has been completed as part of the Rural Growth Deal Full Business Case refresh.
- 6.5.3 Islands Duty - EqSEIA has been completed as part of the Rural Growth Deal Full Business Case refresh.
- 6.6 Climate Change – The refurbishment of this historic building within walking distance of the town centre and main ferry terminal helps secure a high degree of embedded carbon with further efforts being made to reduce its carbon footprint where practicable.
- 6.7 Risk – As set out in the report in respect of capital costs.
- 6.8 Customer Service – None
- 6.9 The Rights of the Child (UNCRC) - All activities to take place in the Pavilion will fully respect the life of the child.

Douglas Hendry - Executive Director with responsibility for Commercial Services

Kirsty Flanagan – Executive Director with responsibility for Development and Economic Growth and Financial Services and the Council’s Section 95 Officer

**Cllr Jim Lynch, Leader of the Council, Leader Portfolio, RGD
Cllr Ross Moreland, Policy Lead for Finance and Commercial Services**

1 May 2024

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