

Rothesay Pavilion request for additional funding

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to request that the Council approves an additional financial underwriting of the Pavilion project of £1M following the recent return of tenders and subsequent value engineering exercise. This would bring the maximum contribution that the Council would be asked to make to the project to £5.689M.
- 1.2 Tenders for the Rothesay Pavilion Adaptive Restoration and Extension Works Contract were issued to four pre-qualified contractors on 6th February 2017 and returned on 24th March 2017. Following completion of the technical and commercial evaluations, all four returned tenders were significantly over budget, which resulted in a Value Engineering (**VE**) exercise being done in order to reduce costs. The VE exercise has been completed and other funders approached for additional funding, however a potential funding shortfall remains. Full financial details are detailed at Appendix 1.

2.0 RECOMMENDATIONS

The Policy and Resources Committee is asked to:

- 2.1 Note that the Rothesay Pavilion Adaptive Restoration and Extension Works Contract has been the subject of a competitive procurement exercise involving four tenderers.
- 2.2 Note that the following receipt of tenders a rigorous Value Engineering exercise was required to reduce costs.
- 2.3 Consider that following completion of the VE exercise a funding shortfall remains.
- 2.4 Recommend to Council that an additional financial underwriting of £1M be taken from the unallocated general fund which increases total underwriting to £3,620,000 taking the Council's maximum contribution to £5,689,000.

2.5 Notes that discussions are ongoing with key funding partners with a view to applying for additional funds, where possible.

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3.0 INTRODUCTION

- 3.1 The Rothesay Pavilion project comprises the comprehensive refurbishment of the grade A listed Rothesay Pavilion which is noted as being 'one of the most significant buildings of the style in the country' (Buildings at Risk register for Scotland). It is a building of national significance, a fact which was reinforced when it was recently voted as being in the top 10 of the top 100 Scottish buildings of the last 100 years.
- 3.2 The project will bring Rothesay Pavilion back into viable economic use by allowing a mix of new commercial, cultural and community activities to be provided within it. This will bring new life to this iconic building as well as stimulating wider regeneration and local economic activity. It is an integral part of the Council's CHORD initiative.
- 3.3 On completion the building will be managed by Rothesay Pavilion Charity (**RPC**) who will lease the building from the Council for a term of 25 years. The charity's board comprises a mix of people who live on the island or who have links to it. However, they have the necessary skills and experience to successfully manage and programme the Pavilion and to ensure it has a sustainable future.

4.0 RECOMMENDATIONS

The Policy and Resources Committee is asked to:

- 4.1 Note that the Rothesay Pavilion Adaptive Restoration and Extension Works Contract has been the subject of a competitive procurement exercise involving four tenderers.
- 4.2 Note that following receipt of tenders a rigorous Value Engineering exercise was required to reduce costs.
- 4.3 Consider that following completion of the VE exercise a funding shortfall remains.
- 4.4 Recommend to full Council that the Council provides an additional financial

underwriting of the project's capital costs of £1M, which increases total underwriting to £3,620,000 taking the Council's maximum contribution to £5,689,000.

- 4.5 Notes that discussions are ongoing with key funding partners with a view to applying for additional funds, where possible.

5.0 DETAIL

- 5.1 This project supports the Council's Economic Development Action Plan and Single Outcome Agreement by;

- Delivering a refurbished Grade A listed building which will act as a major cultural and heritage venue
- Providing a major visitor attraction with an anticipated 77,000 visitors in the first full year of operation
- Providing affordable office space for three SMEs and one social enterprise to grow their businesses and enhance their competitiveness
- Creating jobs
 - 10 created by RPC and 1 retained
 - Up to 15 created within a trading arm of RPC to run their commercial activities (bars, café and commercial hires)
 - 6 created within other SMEs hiring office space
- Training apprentices. Two apprenticeships will be created as a result of the works as follows;
 - Shop/gallery assistant
 - Venue/tech assistant

These apprenticeships will offer training in how to manage a major venue and it is hoped that they will translate into permanent jobs.

- 5.2 Four tenders were returned on 24th March. Following the technical and commercial evaluations, all tenders were above budget and none could be taken forward. A rigorous Value Engineering exercise was initiated and significant cost savings, which have been agreed with our major funders and RPC, have been identified. Members will wish to note that the extent of the costs savings will only be confirmed at the completion of the Re-Tendering exercise. However, it is highly likely that a funding shortfall will remain, which needs to be filled if the project is to proceed. The position has been discussed in detail with our major funding partners and applications for additional funding will be made to Heritage Lottery Fund (**HLF**), Historic Environment Scotland (**HES**) and European Regional Development Fund (**ERDF**) over the next two months with a view to funding decisions being made by September. RPC is also progressing a number of smaller funding applications to trusts and foundations and have committed to raising £400k over the next two years to contribute to the capital costs of the project.

Notwithstanding this additional funding effort it is however unlikely that the full shortfall will be funded by external funders and the Council will have to consider underwriting any remaining shortfall. All financial details concerning this are

contained in Appendix 1.

Options and Risks.

5.3 In preparation for the refurbishment works a significant strip out of the existing mechanical and electrical plant and equipment was undertaken. A number of internal finishes and fittings were also removed to enable asbestos removal works and key internal structural repairs. As a result of this the building is not suitable for occupation at this current time. The options that are therefore available to us are;

- Option 1 - Cancel the refurbishment and leave the building in its current unfinished state. Whilst this would save the capital costs associated with construction, there would be ongoing costs in relation to the security of the building and preventing it from further deterioration. This carries significant reputational risk for the Council given the buildings A listed status and its prominent location in the town. The following would also have to be considered;
 - The Council may have to repay some or all of the funding claimed to date that has been used to pay for strip out, asbestos surveys, associated design fees etc.
 - Important job opportunities would be lost to local people
 - Affordable business space for local SMEs would be lost
 - The wider regeneration and economic impact for the island would be lost.
 - Key funders such as Historic Environment Scotland and Heritage Lottery Fund may disapprove of such an approach and it will be important to consider their views as the Council is working in partnership with both these funders on other projects in Argyll and Bute.
- Option 2 - Only undertake those works that are necessary to make the building operational again. This again carries significant reputational risk for the Council and it is uncertain whether this would be affordable and/or represent value for money. New heating, plumbing and electrical systems would need to be installed as well as significant internal repairs. In such a scenario the existing windows and flat roofs would be left in their current condition with the potential for significant and ongoing water ingress which would cause further deterioration to the fabric of the building.
- Option 3 - Agree the £1m underwriting and continue to re-tender on the basis of the VE exercise recently completed whilst;
 - seeking to reduce costs wherever possible
 - increasing funding support from external partners wherever possible
 - providing additional Council underwriting thereafter up to a maximum contribution of £5,689,000

There is a level of contingency included within the project costs that should allow us to deal with unforeseen issues that may arise during the construction phase.

In the event of continuing the re-tender and insufficient funds are not forthcoming from other funders in addition to the £1m of council underwriting an additional report will be

presented to the council on further options for their consideration.

6.0 CONCLUSION

- 6.1 The Rothesay Pavilion Adaptive Restoration and Extension Works Contract has been the subject of a competitive procurement exercise involving four tenderers. However, following full evaluation of the tenders a VE exercise was necessary in order to reduce costs to meet the project's budget.
- 6.2 Following completion of the VE exercise and despite substantial savings being found that have been agreed by all funders of the project a funding shortfall remains and officers have been engaging with funding partners to endeavor to secure additional funding. This process is ongoing.
- 6.3 Officers have prepared a number of options with their associated risks for consideration by the committee. If the committee agrees with the Option 3 to address the funding shortfall a further underwriting commitment is currently required by the Council of £1M. This will take the Council's contribution to the project to a maximum of £5,689,000.

7.0 IMPLICATIONS

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| 7.1 | Policy | This project forms part of the approved CHORD programme that supports outcomes 1,2 and 3 of the Single Outcome Agreement. Once completed and during the construction phase the Pavilion project will help to boost the local economy, create a key piece of modernised infrastructure that can be used by the local community and which can create employment opportunities for the people of Bute. |
| 7.2 | Financial | See Appendix 1 |
| 7.3 | Legal | None |
| 7.4 | HR | None |
| 7.5 | Equalities | Once completed the building will be fully DDA compliant |
| 7.6 | Risk | See section 4.3 |
| 7.7 | Customer Services | None |

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APPENDICES

Appendix 1