

Finance and Resources Committee

10am, Thursday, 11 October 2018

New Meadowbank Sports Centre Construction Contract

Item number	7.3
Report number	
Executive/routine	
Wards	Craigentinny/Duddingston, Portobello/Craigmillar
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Executive Summary

The Meadowbank project aims to deliver a first class sports facility and new mixed use development on the surrounding land.

This report highlights the current position regarding the funding package for the new Meadowbank Stadium and seeks the approval of the Committee to award the contract for the construction of the new Meadowbank Sports Centre to Graham Construction Ltd for the contract sum of £39,294,291 following a competitive tender process utilising the Council's Contractor Works Framework to identify the most economically advantageous tenderer.

New Meadowbank Sports Centre Construction Contract

1. Recommendations

- 1.1 The Finance and Resources Committee is asked to:
 - 1.1.1 Approve the award of the contract for the construction of the new Meadowbank Sports Centre to Graham Construction Ltd for a contract sum of £39,294,291;
 - 1.1.2 Notes the position with regard to the future development of the remaining Meadowbank site;
 - 1.1.3 Agrees to withdraw the proposed sale of the Westbank site from the open market and request the Executive Director of Place to work with the local community to establish a master plan that seeks to deliver a balance between financial return and local community place-making aspirations;
 - 1.1.4 Instructs officers to engage with joint owners of the site, Powerleague, to achieve the outcome in paragraph 1.1.3;
 - 1.1.5 Requests a report back to the Finance and Resources Committee on the conclusions of the actions in paragraphs 1.1.3 and 1.1.4 with regard the legal, financial and local community implications as soon as practicable; and
 - 1.1.6 Notes the funding position for the project as described in paragraphs 3.12-3.17 and to ensure that £7m of unallocated funding within the capital budget framework remains unallocated until there is greater certainty over the level of capital receipts generated.

2. Background

- 2.1 The last update [report](#) on the new Meadowbank sports centre project was submitted to the Finance and Resources Committee on 23 January 2018 and it was approved that a further report would be submitted to the Committee before a contractor was appointed to construct the new facilities. The tender process is now complete and a preferred contractor has been identified.
- 2.2 In February 2017 the Council approved a £7.9m budget as a contribution towards the new sports centre. At that time, the additional elements of the funding package for the new sports centre were capital receipts from the sale of Council owned sites, a contribution from the Housing Revenue Account (HRA) related to the transfer of

surplus land at Meadowbank for new housing, Sportscotland funding and department supported prudential borrowing. An update on the proposed funding package is provided in the main section of this report.

- 2.3 On 29 June 2018, the Council's Development Management Sub Committee approved two planning applications. Committee granted planning permission in principle for mixed use development on land that is not required for the new sports centre. The second application granted full planning permission for the development of a new sports centre facility. Consultation is now underway to determine the preferred mix of uses on the wider site. Two public events have been hosted and these will be supplemented by a series of workshops before hosting further public events to test proposals with the community.
- 2.4 A programme board chaired by the Council's Executive Director for Place has been established to ensure full co-ordination of all future development activities on the wider Meadowbank site. An investment steering group for the sports centre project will remain with the Senior Manager Estates and Operational Support from the Communities and Families Directorate carrying out the Senior Responsible Officer role for the client department.
- 2.5 The governance structure for delivery of the sports centre is in line with Council policy for a major capital project and is strengthened by the recent establishment of the overarching Meadowbank Programme Board. The internal and external project management and quality assurance resource aligned to the delivery of the sports centre is appropriate for the scale of the project and includes resources to meet the best practice recommendations set out in the [Report of the Independent Inquiry into the Construction of Edinburgh Schools](#).
- 2.6 The existing sports centre's last day of operation was 3 December 2017. Alternative arrangements have been put in place for user groups and the building has been handed back to the Council by Edinburgh Leisure.
- 2.7 Sportscotland confirmed their £5m funding contribution on 31 August 2018. This is an in principle approval subject to the following conditions being met:
 - Evidence of engagement with key governing bodies and clubs around their potential usage profile for the new facilities including consideration of access agreements and/or guiding principles around priority usage, booking, pricing, and access.
 - Appoint an identified person with strategic responsibility to work with key governing bodies and clubs to enhance the regional performance environment.
 - Agreement on sustainable access programme balancing the needs between the regional performance programme for key governing bodies and clubs and community use.
 - Confirmation of 'in principle' investment commitment from City of Edinburgh council to the outstanding capital shortfall.

- An outline paper describing the additionality of this national/ regional centre in comparison to what previously existed.

3. Main report

- 3.1 The tender process for construction of the new sports centre is completed and the most economically advantageous contractor is Graham Construction Ltd.
- 3.2 Commercial and Procurement Services, in conjunction with the Building Programme Team, undertook a full tender exercise by carrying out a mini competition on the Council's Contractor Works Framework – Lot 7 – Projects over £5m. This Framework went live in October 2017 and has been utilised as a key framework for the delivery of commercial construction works such as St John's Primary School and the depot improvement works.
- 3.3 The six contractors on the Framework were invited to tender for Meadowbank Sports Centre on 23 April 2018. Two contractors chose to withdraw from the process citing the size and complexity of the project as being a challenge for them. The remaining framework contractors submitted quality and commercial bids on 10th August 2018.
- 3.4 In the invitation to tender it was stated that the contract would be awarded on the basis of the Most Economically Advantageous Tender with 30% of the overall score being given to quality and 70% given to price. This ratio was determined due to the advanced stage of the high quality design of the sports centre, and the mandatory requirement for the bidders to price the Council's specification without alternatives unless written approval was sought.
- 3.5 The four tender submissions received were evaluated individually by the six members of the evaluation team to determine a score for quality. In accordance with the agreed ratio the weighted maximum score for quality was 30. Ten evaluation criteria areas were identified, each having different weightings and being scored between 0 and 10 in accordance with the Evaluation Criteria Scoring Definitions included in the tender instructions issued to the bidders.
- 3.6 Seven award criteria areas were assessed from the bidders' written tender submission and the bidders also attended an interview which sought responses to the remaining two award criteria areas.
- 3.7 On completion of the individual evaluation process a consensus meeting was held attended by the members of the evaluation team and the procurement lead from Commercial and Procurement Services. Individual evaluation criteria scores were reviewed and debated and a consensus score reached for each bidder. The appropriate weighting was then applied to each of the individual evaluation criteria to arrive at a final quality score.
- 3.8 A threshold of 60% of the total available marks for quality was set to ensure that any bidder failing to provide a satisfactory response to the published evaluation criteria requested within the tender documentation would not be considered further and would not have their pricing bid opened.

- 3.9 Following completion of the quality analysis as all bidders had achieved the minimum threshold score of 60% for quality their pricing bids were opened and subject to a cost analysis. These were evaluated by the external cost consultants, Gardiner & Theobald, via an assessment of the priced Bill of Quantities which formed part of the tender returns.
- 3.10 The lowest priced tender was received which was awarded the maximum score of 70 for price. All other bids were then scored on a pro-rata basis against this lowest bid i.e. for each of the other bids the lowest bid price was divided by that bid price and multiplied by the maximum score of 70.
- 3.11 The quality scores were then combined with the scores from the cost analysis to derive an overall score for each bidder out of a maximum of 100. The results are detailed in the table below.

Bidder	Quality Score	Price Score	Total Score	Fee Bid
Graham Construction	24.75	70.00	94.75	£39,294,291
Bidder 2	24.15	63.62	87.77	£43,232,641
Bidder 3	22.80	63.97	86.77	£42,995,000
Bidder 4	19.80	58.86	78.66	£46,734,643

The bidder with the highest overall score which represents the Most Economically Advantageous Tender is Graham Construction Ltd.

- 3.12 The construction cost resulting from the tender process is £39.294m. Further to this there are additional costs relating to the enabling works programme (now complete), project development and support costs amounting to £6.016m. The total estimated cost of the project is therefore £45.310m. This includes an appropriate contingency for a project of this size. Details of the funding package for the sports centre are summarised in the following table and further detail on specific elements of the funding package provided in the remainder of the report.

Estimated cost and financial package for a new Meadowbank Sports Centre	
Total project cost estimate	£45.310m
Funding Sources	
Council Capital Investment Programme	£7.9m
Estimated Capital Receipts (Meadowbank Site)	£ 20-24m (see update below)
Estimated Capital Receipts (Westbank Site)	£3m (see update below)
Prudential Borrowing	£6.8m (see information below)
sportscotland	£5m (confirmed)
<i>Total estimated funding</i>	£42.7m – 46.7m

- 3.13 Funding of £7.9m from the Councils capital programme was secured in February 2017 and as noted in paragraph 2.7 above in principle funding of £5m from Sportscotland was confirmed on 31 August 2018.
- 3.14 The largest element of the funding package is capital receipts to be obtained through the development of the wider regeneration site supplemented by the sale of the Westbank site in Portobello.

Meadowbank- wider development site

- 3.15 The planning permission associated with the wider site established the principle of mixed use development site including residential, student accommodation, commercial and retail use. Detailed planning applications which will include densities, unit numbers, height of buildings etc. will be submitted following a thorough and extensive period of community engagement. The level of estimated receipts in the table above is based on an appropriate level of development for the size of the site and a range has been provided because these receipts will not be guaranteed until the consultation and engagement has concluded and further planning approvals have been secured.

Westbank - Portobello

- 3.16 The use of the receipt from Westbank towards the funding of the new Meadowbank Sports Centre was set out in a report to the Corporate Policy and Strategy Committee, on 29 September 2015, before being referred on to the Economy

Committee, to approve the disposal, on 17 November 2015 and the Finance and Resources Committee, to approve the ring fencing of the receipt, on 26 November 2015.

- 3.17 The site was marketed on 2017 and, at the closing date of 24 November, a total of 13 separate bids were received due to multiple proposals received from 3 developers. A recommended preferred bidder has been identified.
- 3.18 In tandem with the above, in early March 2018, Action Party held a drop-in community placemaking exercise for the site, assisted with funding from the Scottish Government. The event took place over the course of a weekend and consisted of three design teams working with members of the community to identify the local aspirations for the site, which were collated into potential design outputs. The community accepted the need for change and three options for the site were produced indicating a range of levels of development. Consequently, the local community, led by Action Party, are seeking the Council to withdraw from the sale of the site on the open market and for the development of the site to be taken forward by the Council in close consultation with the local community to deliver an exemplar place making masterplan that balances the requirement for financial return with local community aspirations. Principally, a revised development brief would be designed for the site that could be delivered by the Council and/or a development partner.
- 3.19 Given the above options, a decision is required on how the development should be taken forward, i.e., proceed with the current process or withdraw and work with the local community to establish a masterplan that seeks to deliver a greater balance between financial return and local community placemaking aspirations.
- 3.20 The first option would, in theory, deliver the highest financial return however; the site is sensitive from a planning perspective and therefore has a high degree planning risk. Given the work done to date by the local community, it would also galvanise objection to the proposals which could further increase the planning risk.
- 3.21 The second option may reduce the financial return but this is impossible to estimate at this time as the masterplan/placemaking exercise has to happen first. While withdrawing from a proposed sale at a late stage has professional reputational issues for the Council, all bidders are aware the vendors can change their decision at any time. Conversely, there could be reputational risk with the local community and Scottish Government if this option does not proceed. The final risk relates to ensuring that the joint owner, Powerleague, accepts this revised approach but they are unlikely to make any decision in this regard until the process is complete and revised outcomes known.
- 3.22 In conclusion, it is proposed to withdraw from the sale of the site from the open market and proceed with a masterplan/placemaking exercise in close consultation with the local community. The financial implications and other outputs from this exercise will be reported back to Committee as soon as practicable and officers will engage with the joint owners, Powerleague, to achieve this outcome.

3.23 The figures in paragraph 3.12 need to be treated with caution as there is a significant risk that the public engagement/consultation exercises will result in reduced development densities at Meadowbank and/or Westbank which, in turn, will impact on land value. The sale of the site at Westbank Street was previously included in the capital receipts and will continue to be as, notwithstanding the revised approach, there is still expected to be a financial return to the Council.

Funding Strategy

3.24 In the event of a delay or shortfall in capital receipts from the wider Meadowbank regeneration site, the balance will be met, in the first instance, from any receipt from the sale of the Westbank Street site at Portobello. Should funding still be insufficient, the funding gap will need to be addressed by a reprioritisation of the Council's capital programme. The capital budget framework for the period 2019-2024, reported to the Finance and Resources Committee on 27 September 2018 contains unallocated funding of £7m in 2023/24. Following analysis of the level of additional funding that may be required to mitigate this risk; it is recommended that this sum remains unallocated until there is greater certainty over the level of capital receipts for this project.

3.25 A demolition and enabling works contract which included some demolition and earthworks across the wider regeneration site has been completed. The costs associated with the works on the wider regeneration site have been included in the sports centre project costs above and the estimated receipts assume there will be no further significant abnormal costs generated on the wider regenerations sites. The risk of further abnormal costs emerging on the wider regeneration site will be included and monitored in the programme board's risk register.

3.26 The prudential borrowing element of the funding requires the new Sports Centre to operate without a service payment from the Council. The operational business case, prepared by Edinburgh Leisure demonstrates that further savings and revenue income streams will be generated from the new facility. In addition, Edinburgh Leisure will relocate its head office to Meadowbank and generate further savings from terminating its existing lease. The annual service payment to Edinburgh Leisure will be reduced by the amount of the service payment for the existing facility and the additional net income generated. The saving to the Council resulting from this reduction in the service payment will be made available to fund the prudential borrowing element of the project.

4. Measures of success

4.1 Measures of success are:

- Delivery of a new sports facilities at Meadowbank on time and on budget which meet the needs of all user groups including positive benefits in terms of health and wellbeing;
- Development of more than 300 new homes; including affordable housing; and

- Support for jobs and the wider economy.

5. Financial impact

- 5.1 As stated in the report the estimated cost of the project is £45.310m. This is anticipated to be funded from the Council's approved capital budget, ring-fenced capital receipts, prudential borrowing funded from funding efficiencies and sportscotland grant.
- 5.2 As noted in paragraph 3.14 above, the final level of ring-fenced receipts will not be known until the development mix of the site is confirmed and approved. While it is expected these will be enough to meet the requirements of the funding package for the sports centre there remains a risk that a funding gap will emerge in future. If this occurs the gap will require to be met by a reprioritisation of the Council's capital investment programme. Following analysis of the level of additional funding that may be required to mitigate this risk, it is recommended that the £7m unallocated funding in the capital framework remains unallocated until such time as there is greater certainty over the level of receipts generated by this project. This will mean that other priority Council projects will be unable to proceed.
- 5.3 The report outlines proposed total capital expenditure plans of a maximum of £45.3m with identified potential funding of up to £32m from grant and capital receipts and £14.7m being funded from a combination of directorate revenue budgets and the core capital investment programme. If this funding gap were to be funded fully by borrowing, the overall loan charges associated with this expenditure over a 20 year period would be a principal amount of £14.7m and interest of £9.6m, resulting in a total cost of £24.3m based on a loans fund interest rate of 5.1%. The annual loan charges would be £1.2m.
- 5.4 It should be noted that the Council's Capital Investment Programme is funded through a combination of General Capital Grant from the Scottish Government, developers and third party contributions, capital receipts and borrowing. The borrowing required is carried out in line with the Council's approved Treasury Management Strategy and is provided for on an overall programme basis rather than for individual capital projects.
- 5.5 The costs associated with procuring this contract are estimated at £20,001 - £35,000.

6. Risk, policy, compliance and governance impact

- 6.1 Communities and Families capital projects are delivered in line with the Council's Risk Management Policy and Framework. The new Meadowbank project is overseen by an Investment Steering Group which operates based on the project management principles of Prince 2 following the same governance structure as all other Council major projects. The governance structure for delivery of the sports centre is in line with Council policy for a major capital project and is strengthened by

the recent establishment of the overarching Meadowbank Programme Board. The internal and external project management and quality assurance resource aligned to the delivery of the sports centre is appropriate for the scale of the project and includes resources to meet the best practice recommendations set out in the [Report of the Independent Inquiry into the Construction of Edinburgh Schools](#).

- 6.2 The prudential funding element of the funding package requires a reduction in the service payment to Edinburgh Leisure. This reduction is based on the new Sports Centre operating without service payment and for Edinburgh Leisure to generate additional annual efficiencies and income. The risk of any shortfall against these targets is borne by Edinburgh Leisure.

7. Equalities impact

- 7.1 The new sports centre at Meadowbank will be a modern, fully accessible, high quality facility open to all Edinburgh residents and visitors. The new facility would make a positive impact on the health, well-being and quality of life of those who use it. The facility is currently projected to attract over 600,000 visits per year by the second year of its operation. The current Meadowbank has just over 500,000 visits per year. If the project does not proceed, the impact on current users losing this facility would require to be assessed.
- 7.2 All new homes developed on the surplus sites will be high quality, energy efficient and accessible. A proportion of the new homes will be suitable for frail, older people and wheelchair users.

8. Sustainability impact

- 8.1 The new Meadowbank sports centre has been designed wherever possible in line with the Council's policies on energy efficiency and sustainability. New housing is built to high standards of energy efficiency and sustainability with brown field housing development reducing the impact on Edinburgh's greenbelt.
- 8.2 The Council has a Community Benefits in Procurement Programme and as part of the evaluation process Graham Construction Ltd has committed to the following key community benefits:
- creation of a 'Benefit in Kind' fund of £40,000 to support local projects through time, materials and expertise;
 - a minimum of 6 work apprenticeships;
 - new work start opportunities promoted through local employability agencies targeting disadvantaged groups;
 - work experience placements for Jet and TOiL programme users;
 - graduate placements and 6 job shadowing opportunities;
 - career talks and site visits for schools and colleges; and

- events focussed at supporting local SMEs in training, innovation and future tendering opportunities.

9. Consultation and engagement

- 9.1 Significant consultation and engagement with national sports governing bodies and local users of the sports facilities has been undertaken to date and will continue throughout the future phases of the project.
- 9.2 Public consultation events as required through the planning process following the submission of a Proposal of Application Notice have been carried out.

10. Background reading/external references

- 10.1 Report to Council on [9 February 2017](#)

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