

APPENDIX 1

Braddan Parish Commissioners



The Roundhouse

Interim Financial Report

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Clerk

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(updated by indexing 21st July 2023)

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1. Introduction

- 1.1 The following document is not in the standard business case format but is a preliminary exercise in advance of submitting a full Business Case and Petition seeking approval for additional borrowing.
- 1.2 Attached to this report are the Quantity Surveyors (QS) Financial Reports from 9 to 13 which cover the past twelve months. This will help to explain the trajectory of the spend and possibly why we had not approached the Department at an earlier stage.
- 1.3 This report will have an overview of the cost increases and the cause and effect to the Parish. A more detailed report on the causes of the increase in costs has been requested from the Project Manager who has been asked to undertake a forensic review of the situation.
- 1.4 For the purposes of clarification, the loan does not cover the costs of consultants fees, which totalled £566,771. These at the outset were to be funded from the Commissioners General Reserves (which stood at approximately £1m at the start of the contract).
- 1.5 Neither does it cover the costs of various pieces of equipment who's life expectancy will probably be 10- 15 years. Examples are desks, chairs, IT systems, and the outdoor play area. The additional borrowing will be in the region of £300k but it can be noted that the Commissioners have received grant assistance from the Manx Lottery Trust and the Department of Enterprise totalling £75,000.

2. Services provided

2.1 The facility provides:

Commercially let:

- Coffee shop (100 covers)
- Indoor soft-play area for young children
- Childrens nursery
- Gym
- A baby sensory facility
- Pharmacy
- Dental surgery (3 chair)
- Pharmacy
- Therapy suites (2)
- Beautician

Local Authority operated services and facilities

Chargeable

- Sports Hall/ auditorium (high level facility with 120 fixed seats overlooking the hall and 120 pull out seats that extend into the hall for conferences/ theatre/ musical venue). The facility is to be hired out on a similar basis to the NSC and measures 33m x 19m. It is suitable for international level sports ie Island Games
- Small conference room (10m circular)
- Village green suitable for occasions requiring marquees (however no charge for general use)

Community facilities (free)

- 500m walk/talk/exercise tarmac track.
- Childrens out-door play area for 4 years to 12 years
- Village green and open space (2 acres)(as above)

3. Look at cost increases

- 3.1 The starting point is the approved loan which was **£6,524,383 as at December 2020.**
- 3.2 When the initial tender price was received, a Value Engineering Exercise was undertaken to reduce the costs as much as possible. The full breakdown of these costs will be identified in the full Petition Report

Total costs to be funded from borrowing	£	
Cedar tender price (Per I3 25 Nov 20)	6,709,884	
Less value engineering exercise	(185,500)	
Total	6,524,384	

However the cost due to various reasons (explained below) the starting point for the benefit of the QS report was actually **£6,984,853.29:**

Revised costs as at May 2021		
Cedar tender price (per I3 report Nov 20)	6,709,884	
Price increases Aug 20	32,237	
Price increases Jan 21 (Steel and roofing materials)	207,684	
Price increase – public lifts inside the building	3,500	
Less Value engineering (revised from previous)	(168,920)	
Total Contract Sum	6,784,385	
Price increase - Leister cladding (roofing contractor) pulling out after contract signature and new contractor appointed	200,468	
Expected final expenditure on the scheme	6,984,853	

- 3.3 If the calculations of the QS are accepted, the final costs will be **£9,608,645** (page 9 Financial report 13). However since the meeting of 2nd June with representatives from DoI, the Commissioners have asked for the plans for a revised road access via Ballaoates Road to be shelved reducing the figure by £120,000.
- 3.4 We have considered whether any other aspects of the project could be halted, but at this stage most equipment and materials have already been purchased or are on order with major cancellation costs.
- 3.5 There are two aspects that are planning conditions that require consideration. First is a condition that a pedestrian crossing is installed on Braddan Road which has been costed at £25,000. There is a thought that the maintenance of the highways under the Highway Act

(including pedestrian crossings) lies with the Department. It is an arguable point with the Department but it cannot be ignored.

- 3.6 Second is the planting scheme that is costed at £150,000 which, to the Commissioners, is exorbitant. The Project Manager has been asked to reconsider the specification of the plants/trees and return with something less than £100,000 or perhaps even look for a revised planning condition.
- 3.7 Disregarding the two planning conditions the Commissioners will potentially be seeking approval for an additional loan of **£2,964,261 (£9,608,645 less £120,000 less £6,524,384)**

4. Looking at causes

- 4.1 The QS has examined the price increase and 8 categories :

Design Changes
Market Conditions
Delays (Contractors Preliminary Costs)
Commissioners Changes
Tenant Changes
General Contingency
Provisional Sums
M&E.

- 4.2 For the purposes of a formal Petition, each of these categories will be examined in detail, but for the purposes of this report, consideration has been given to significant costs and why they have occurred. These are detailed in the QS report but have also been explained below.

Design Changes - £833,974

The most significant issue was the need to purchase additional steels due to the changes to the design of the roof. It must be considered if the original design was adequate, and whether in fact the building should have been designed at the start to have a steel framework and not just wind posts. A question about responsibility for these additional costs must be considered.

Market Conditions- £550,202

These are beyond the control of the Commissioners and reflects the impact of COVID on the building industry both on and off the island. An 8% increase could perhaps be seen as acceptable in the current climate.

Delays- £466,690

This matter requires investigation and justification by the Project Manager. To date the PM has extended the contract date to October so there are no penalties to be imposed on the contractor and the Preliminary Costs are simply adding up.

Commissioners Changes £247,455 (which is £372,455 in QS report 13 less access road costs)

The addition of solar panels at a cost of £103k may seem an extravagance, but it does go to the Commissioners green credentials and has a 10 year payback even at present date electricity charges.

The reintroduction of the pull-out seating in the hall has cost approximately £60,000, but the potential for using the facility as an auditorium dramatically increases the potential income . As an example the hire of the sports hall for 6 hours would be approximately £350, but the hire for the same period for a band or dance competition could be £1500. We have been approached by

music societies who are interested in the facility due to its viewing capabilities and the acoustics.

A combination of other smaller changes will be considered but they will include the purchase of the kitchen equipment, with without which a suitable tenant may not have been attracted. The supply of a fitted kitchen is a similar approach to the lease for the NSC.

Tenant Changes

Almost all changes requested by the tenants have been costed and will be reflected in increased lease charges. The initial lease income had been agreed at £249,000 but the Commissioners are expecting an increase of approximately £25,000 as a result of recovering costs incurred by tenant changes.

Examples could be: an increase in size of the dedicated playground for the nursery or a toilet for patients inside the dental surgery.

General Contingency

Determined by QS

Provisional Sums

Determined by QS

M&E.

Again, some of these costs are recoverable from tenants.

Planning conditions:

Cost of planting – potential savings £50,000

Cost of pedestrian crossing - £25,000

5 The beneficial effect of the service we will provide:

- 5.1 Very importantly it should be stated that this facility is not competition for the NSC with whom we have been working with very closely with, to get this facility up and running (ie advice, policies and procedures). They see it as an opportunity that will go some way to cope with the increasing demand, (which is a similar situation to the schools).
- 5.2 The concept of the building was that it would provide, a central focal point for the Parish, and services which are in demand. However there was also balance with a more commercial approach by selecting facilities that provide services to the Community but also a high level and a guaranteed income. An example is the dental surgery and the pharmacy who have created bespoke facilities which, to the Commissioners, shows a high level of commitment.
- 5.3 Looking purely at the hospital, one of the strong points of the initial business case was the opportunity to provide facilities to the families of doctors and nurses living in the residencies, who will not leave the hospital area and are confined to their homes.
- 5.4 Whilst there was a degree of concern that this demand had diminished, discussions with senior professionals have confirmed that this is not the case and this facility is now one of the reasons they may decide to remain on the island.

- 5.5 That may be seen as a sweeping statement, but we have spent a certain amount of time meeting staff to promote the facility and there is a large swell of support from the staff because it provides the opportunity for gym sessions, collecting prescriptions, using the walking track for exercise and the coffee shop as an alternative to the canteen and still not having to leave the area by car.
- 5.6 Certain services are interested in the sports hall/auditorium and meeting room for conferences.
- 5.7 The tenant of the gym has been able to make contact with hospital staff and over 300 people have stated that they wish to avail themselves of his services/facility.

6. Creation of new jobs

- 6.1 Whilst it has not been officially calculated the tenants are creating new businesses or extending their existing businesses. The indication is that the building is creating approximately 25 new jobs.

7. Implications on the Parish Rate

- 7.1 Essential services are beneficial to the community as well as the DHSC/Manx Care
- 7.2 All Units are tenanted and create new business opportunities. There are two fully long established businesses, the Pharmacy and the Nursery
- 7.3 The pharmacy provides a much needed service to the island and is ideally placed for the GP Practice and the Hospital.
- 7.4 The nursery is an existing business but with the bespoke facility it provides an opportunity for 12 babies to be cared for, which is in high demand at the moment.

8. How will we manage with the increase loan charges

- 8.1 The additional work requested by the tenants will result in a higher rent that will help in the repayment of the loan charges. These additional costs will be recovered over the length of their lease (that is 7 years) and not the 30 year period of the loan which is an advantage to the Commissioners. For example the nursery will be repaying the £40,000 additional spend on that facility over 7 years (the term of her lease) and not 30 years.
- 8.2 Disregarding any other opportunities for raising moneys (sponsorships etc), the most straightforward approach to meet the additional loan costs would be to increase the general rate for the Parish which presently stands at 257p.

We have examined (with the assistance of HSBC) the implications of a £2,900,000 loan:

Annual Capital repayments = £ 96, 664

Annual Interest repayment = £147,262

Total repayment **£243, 926**

This equates to an additional 43p on the present rates.

An average property in the Parish is rated at 149 and therefore a 43p increase would equate to a £64.07p increase in their Parish rate bill.

9. Other opportunities to assist in reducing the impact of an additional cost.

- 9.1 Despite the assistance of consultants, it is not possible to accurately predict the operation costs of the building such as electricity, gas, maintenance costs etc. It is hoped that the actual costs do not exceed (or are even less) than the predicted costs.
- 9.2 It could be questioned why the Authority, in the light of the fact that the scheme had received planning approval in 2017, it did not take the opportunity to build greater reserves to cope with all eventualities. In response the Commissioners will say that the ratepayers pay for what they receive now and not what they may receive in the future.
- 9.3 These are considerations (a brainstorming exercise) to reduce the impact on the rate if a straightforward rate increase is not acceptable. These are not tested and are purely potential opportunities.
1. Seek sponsorship
 2. Seek Central Government grant assistance to assist with the additional costs incurred due to COVID.
 3. Seek Central Government grant assistance because the facility is of strategic importance to the Island Plan
 4. Convert the loan to interest only repayments (for a short period)
 5. Not to use the General Reserves to pay the consultant fees. As is normal practice, these could be included into the capital loan costs for the construction which are repaid over the 30 year period. This would allow the Commissioners to use possibly £500,000 to phase in a rate increase over three/four years
 6. Now that bookings for the sports hall and other facilities are becoming clearer, re-examine the predicted income which was strategically kept low. Our predicted income was based on the scale of charges used by the NSC, and those costs can be re-examined.
 7. Create a Special District where the businesses in the Parish pay a higher rate than a domestic property (exploratory business case to be submitted to the Department recognising that it requires legislative changes)
 8. Fortnightly waste collection (although no cost savings in the first year due to investment in infrastructure).
- 9.4 In the remaining part of 23/24, whilst our predicted income levels (rent and hall hire) are drastically reduced, the implications may not be catastrophic as the running costs of the building (estimated at £150k per annum) will not have been incurred.

10. Conclusion

- 10.1 Locally and in the United Kingdom the building industry is facing unprecedented times. There are cost of living rises as well as construction costs (staffing and materials) which put everyone under pressure.
- 10.2 On reflection, if the Commissioners had known that they were to face these pressures, they undoubtedly would not have progressed with the scheme.
- 10.3 What the Commissioners aim to do is provide facilities and service for the Parish and the Island. This building is unique and unlikely to ever be replicated. It provides a new dimension to leisure

and services and the Commissioners would hope that the people will see that this is an investment in the future and a contribution toward facilities the Island needs if it ever hopes to meet the Island Plan.

10.4 It is important to stress that this is not a simple facility with a sports hall, it is a more complex and encompassing facility that needs to be viewed to be appreciated.