

## **Easthouses Primary School – Full Business Case**

### **Report by Executive Director Place**

### **Report for Decision**

## **1 Recommendations**

It is recommended that the Council:

- i. Notes that the design development of Easthouses Primary School through HubSE has concluded and a school design for the new two stream primary school has been approved by Education.
- ii. Notes that following a competitive tender process through HubSE, a preferred contractor is in place and has been refining this design with officers in both Place and Education.
- iii. Notes that the approved budget in the General Services Capital Plan for this project is £18.616m.
- iv. Approves an Affordability Cap for this project of £21.59m to allow its procurement to proceed, supported by the rationale provided in the report below and in the Full Business Case appended to this report.
- v. Approves the procurement of the project on the basis of the Full Business Case.
- vi. Approves a General Services Capital Plan budget of £22.044m for the overall project cost.

## **2 Purpose of Report/Executive Summary**

In an update of the General Services Capital Plan 2021/22 Quarter 3 Monitoring Report and 2022/23 to 25/26 Budgets (report to Council 15<sup>th</sup> February 2022), it was highlighted that:

- The Strategic Outline Business Case for Easthouses Primary School had been approved by Children, Young People & Estates Capital Programme & Strategy Board on 20 January 2022, and Capital Plan & Asset Management Board on 25 January 2022.
- That the budget for the provision of a 2 stream primary school, with 18 ASN places and 120 Early Years spaces had risen from the existing fully approved capital expenditure budget of £13.205 million to £18.616 million.

- That the increase in cost was to be funded through a mix of increased application of Early Years Grant (£0.414 million), increased application of developer contributions (£4.003 million) and an increase in prudential borrowing (£0.994 million).

The report highlighted that the increase in costs reflected improved energy requirements as part of the building design in line with the Council's Net Zero to 2030 commitment, and the latest estimates of costs. The £18.616m budget was arrived at by applying the Scottish Futures Trust (SFT) funding metric (£4,244/m<sup>2</sup>) to the proposed 4,386sqm development and includes historic expenditure on fees to date. In the past, Midlothian Council has delivered school developments within that funding metric.

However, it should be noted that this metric has not been updated in recent years and has not kept pace with level of inflation that has affected the construction market in the last 12 – 18 months.

The £18.616m budget was also less than the £20.12m that quantity surveyors advising the Council (Thomas & Adamson) estimated at the time it would cost to deliver the school.

Following this report, Midlothian Council utilised HubSE to appoint a Tier 1 contractor in order to avail of their expertise in design development and value management, seeking to drive savings and bring the budget in line with the SFT Metric.

However, any savings achieved by reductions in floor area and careful review of project costs have been overtaken by the inflationary impact on the construction market which is pushing the cost of parts and labour upwards. This has been verified through market testing via our preferred contractor Morrison.

As a result, in order to deliver the approved design for Easthouses Primary School, the proposed Affordability Cap is now £21.59m. This represents a cost of £4922/m<sup>2</sup>.

The cost of delivering the school in addition to historic costs associated with the project require an adjustment to the General Services Capital Plan to reflect an overall budget of £22.044m.

**Date:** 16 June 2022

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### **3 Background**

- 3.1** The requirement to deliver a new two stream primary school at Easthouses, on the site of the former Newbattle High School, arose due to the planned expansion of the settlements of Easthouses, Mayfield, Newtongrange and Gorebridge. This is resulting in a rising pupil product from new housing developments in the surrounding areas.
- 3.2** The delivery of the school will ensure a capacity breach at Newtongrange Primary School is avoided and a high quality learning environment across the learning estate in Midlothian can continue to be provided. A statutory catchment review and consultation will be carried out to alleviate existing capacity pressures within surrounding schools and to ensure that sufficient school places are available throughout Midlothian Council's learning estate.
- 3.3** Following the approval of a budget for the project in a report to Council on 12<sup>th</sup> February 2019, a design for the school was developed and planning consent obtained with a view to deliver the school for August 2022.
- 3.4** However, having designed the proposal, the project went out the tender. The tender return date was the 6<sup>th</sup> of April 2020, which fell within the first COVID-19 lockdown. The tender process was subsequently put on hold and it became clear that the original August 2022 target date was going to be missed.
- 3.5** In order to make best use of this delay, a design review of the project was undertaken which identified several areas of concern, highlighting numerous areas of the proposal which were inadequate for educational and operational use.
- 3.6** Subsequently, an independent design team was appointed through Hub South East (HubSE) framework to undertake a design review and set out options for how to take the project forward. This assessed the design in line with the Single Midlothian Plan's requirements and outcomes and presents the associated implications from each option relating to education outcomes, programme impacts and costs.
- 3.7** This process resulted in a total of 43 observations that need to be addressed for the design to comply with the project business goals, strategic aims and business plans. These ranged from fundamental operational matters, such as inadequate ASN provision, to specific design observations, such as the dining space being inadequate in terms of shape and location. Additionally, the design was not developed with current energy targets in mind, and thus would fall significantly short of the requirements of current schools being designed and constructed to LEIP standards.

- 3.8** Consequently, a fundamental redesign of Easthouses Primary School was undertaken by the team's architect, working closely with Education and Place, that would deliver a master-planned solution for the new Easthouses Primary School that can provide places for 459 children, an enhanced nurture provision with 16 places, to support children with social, emotional or behaviour needs, and 80 pre-school places to provide for the current and expanding Easthouses catchment area.
- 3.9** Following the approval of the revised budget for the project in February 2022, HubSE, working closely with Midlothian Council, appointed a preferred Tier 1 contractor. This triggered a further design review with the aim of bringing the estimated budget of £20.12m in line with the approved budget of £18.616m.
- 3.10** However, this review was undertaken at a time when the construction industry is being affected by persistent labour and supply chain issues as well as rising material prices. This has resulted in a significant inflationary impact on capital projects across the Council's programme. At Easthouses, following extensive market testing with their suppliers, Morrison has reported that the project will cost £21.59m to deliver.
- 3.11** It should be noted that we have ensured that fees for HubSE are linked to the value of the original £18.616m budget and fees for the wider design team are linked to £20.12m value that Thomas & Adamson placed on the project in January 2022. This ensures that that the advisory team is not benefitting financially from wider cost inflation.
- 3.12** Midlothian will continue to seek means to reduce the overall cost of the project without jeopardising the integrity and quality of the school. However, given current inflationary trends, a decision is being sought to secure the £21.59m budget to allow an Affordability Cap (maximum price) to be set for the project as soon as possible. This will result in a commitment that the price cannot go higher than that and transfer the risk of further increased costs over and above £21.59m to HubSE.
- 3.13** As set out in the Full Business Case, the total project cost to Midlothian Council is £22.044m, once historic expenses on the project since 2019 are included. This does not affect the proposed Affordability Cap.
- 3.14** The target for delivery of the school has now been adjusted to August 2024, in consultation with Education.

## 4 Report Implications (Resource, Digital and Risk)

### 4.1 Resource

<b>Project Capital Expenditure &amp; Income</b>									
<b>Financial Year</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>Later Yrs</b>	<b>Total</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Capital Costs	301	156	112	687	16,382	4,096	310	0	<b>22,044</b>
Early Years Capital Grant	0	-54	-13	-120	-2,446	-612	-46	0	<b>-3,292</b>
Developer Contributions	-220	-102	-79	-512	-1,505	-750	-863	-10,998	<b>-15,029</b>
<b>Net Capital Cost</b>	<b>81</b>	<b>0</b>	<b>20</b>	<b>55</b>	<b>12,430</b>	<b>2,734</b>	<b>-599</b>	<b>-10,998</b>	<b>3,723</b>

The potential impact on the Council's revenue budget as a direct consequence of the revised/additional capital investment (the Council's Loan Charges) is shown in the table below.

<b>Financial Year</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>Following receipt of all DC's</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	
Net Capital Costs (from table above)	81	0	20	55	12,430	2,734	-553	-10,998	
<b>Loan Charges</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>388</b>	<b>472</b>	<b>562</b>	<b>540</b>	<b>134</b>

### 4.2 Digital None

### 4.3 Risk

Project Overview - Risks		Impact	Likelihood	Mitigation
Financial	Budget: Current £18,616,000 Forecast cost: £21.59m	5	5	Currently reviewing value management options to deliver project for less than current anticipated budget.
Financial	Future market volatility and inflation pushing cost above anticipated budget. Currently there is no evidence of prices increases levelling out at this stage and as such, there is a risk that prices may rise above the level of inflation indicated within the BCIS indices.	5	3	Integrating inflation into budget in accordance with procurement methodology. Secure Affordability Cap as soon as possible to transfer risk to contractor / HubSE.
Operational	Value Engineering results in school that is not adequate for educational or operational requirements and/or has significant defects/snagging issues due to poor quality build.	4	1	Close engagement of client in design development to ensure building is fit for purpose. Integration of quality assurance into build process through HubSE oversight / client management .
Delivery	Planning conditions are imposed as part of the consent that results in unaccounted for costs.	3	1	Risk/contingency allowances made within proposed budget to address eventuality.
Delivery	Delays in delivery past June completion / August hand over result from value management process.	3	1	The Stage 1 programme has been extended to account for the value management programme currently being undertaken. Education now identifies a site

				start early 2023 with completion July 2024.
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**4.4 Ensuring Equalities (if required a separate IIA must be completed)**

NA

**4.4 Additional Report Implications**

**Appendices**

**Appendix A – Additional Report Implications**

**Appendix B – Background information/Links**

## APPENDIX A – Report Implications

### A.1 Key Priorities within the Single Midlothian Plan

- **Reduce education inequality:** the school will provide a high quality learning environment and creating opportunities for pupils to learn in a nurturing and secure space
- **Reduce economic inequality:** through provision of high quality learning environment in a location that is more accessible to more pupils, it is anticipated that there will be a positive impact on engagement and attainment, which will drive community and economic benefits.
- **Reduce health inequality:** A school developed to a high energy standard, which will be a healthy environment for pupils to learn. The school will need to be accessible by public and active transport routes, utilising green infrastructure, to ensure the pupils have the opportunity to develop healthy and sustainable travel habits;
- **Achieve net zero carbon by 2030:** The replacement school will be built to a high energy standard and will be situated closer to the majority of its catchment pupils, making it more accessible by walking and cycling. This will result in a decreased carbon footprint for the operation of the school.

### A.2 Key Drivers for Change

Key drivers addressed in this report:

- Holistic Working
- Hub and Spoke
- Modern
- Sustainable
- Transformational
- Preventative
- Asset-based
- Continuous Improvement
- One size fits one
- None of the above

### A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious
- None of the above

### A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value



## **A.5 Involving Communities and Other Stakeholders**

### **Planning / Design / Delivery Consultation**

This proposed project involves working with both schools and stakeholders within the community. Community engagement will commence once this report has been approved and the project has governance to progress to Planning.

### **Education Statutory Consultation**

Statutory consultation will be undertaken on the establishment of the new primary school and its catchment area.

## **A.6 Impact on Performance and Outcomes**

The aim of this paper supports the priority to reduce the inequalities in learning outcomes by improving the quality of learning and teaching, leading to raised levels of achievement and attainment, by providing every child with the opportunity to attend school in their local community.

## **A.7 Adopting a Preventative Approach**

The Council's approach to pupil placement adopts a preventative approach by maximising the opportunities for pupils to attend school in their local community.

## **A.8 Supporting Sustainable Development**

While this development is not funded through the Learning Estate Investment Programme (LEIP), its energy efficiency strategy is to achieve the Band A performance for LEIP funded projects. This equates to an ambitious energy target of 67/kWh/sqm/annum for core hours/facilities use. This project therefore supports Midlothian Council's carbon strategy.

Because there was a pre-existing design in place that served as a starting point for this project, which pre-dated the declaration of a climate emergency by Midlothian Council in 2019, the project brief for Easthouses school did not require it to be designed to a Passivhaus certified standard.

## **APPENDIX B**

### **Background Papers/Resource Links (if applicable)**

**Easthouses Primary School Report to Council 12<sup>th</sup> February 2019**  
**General Services Capital Plan Update 15<sup>th</sup> February 2022**  
**Easthouses Primary School Full Business Case 14<sup>th</sup> June 2022**