

## **RECORD OF DECISION TAKEN BY DIRECTOR IN CONSULTATION WITH PORTFOLIO HOLDER**

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### **ENERGISING BLYTH ENERGY CENTRAL CAMPUS PHASE 1 - LEARNING HUB: Project virements**

**Cabinet Member: Cllr Wojciech Ploszaj**

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#### **Purpose of Report**

To seek approval from the Executive Director of Finance (S151 Officer), under delegated authority, pursuant to Part 9, Section 3 of the Constitution, for the Council to vire project costs associated with the acquisition of Commissioners Quay land for car parking to the Energising Blyth Project Delivery Support Budget in order to maintain robust contingencies for the construction phase.

#### **Recommendations**

**It is recommended that delegated approval is granted to:**

**Reallocate the costs to acquire Commissioners Quay car park (£0.200 million) to the Energising Blyth Project Delivery Support budget.**

#### **Link to Corporate Plan**

This project is part of the Energising Blyth Programme supported by the Town Deal. This is a placemaking 'whole town' programme which contributes to the Council's Corporate Plan priorities but particularly to the living, enjoying, thriving and connecting strategic priorities.

#### **Key Issues**

In April 2023, the Council's Cabinet approved the Full Business Case for the Energy Central Campus Phase 1 – Learning Hub to enable a Town Deal and Northumberland County Council (as Accountable Body) Grant Funding Agreement to be entered into between the Accountable Body and Energy Central Campus Ltd.

The Council's Cabinet approved a total budget for inclusion in the Capital Programme of £13.580 million Capital and £0.200 million Revenue, including £4.480 million from the Energising Blyth Project Delivery Support Budget which is included in the Mid-Term Financial Plan.

Following an extensive value engineering exercise, £0.931 million savings have been achieved, which represents a reduction on the initial value identified of £1.600 million.

The contract sum analysis identifies a total cost of £11.668 million. This falls within the total budget approved by Cabinet in April 2023. However, this reduces the contingency budget to £0.074 million.

The report summarises the reasons why costs have increased and a recommended approach to ensuring a contingency budget is maintained for the project.

## **BACKGROUND**

1. Northumberland County Council and its partners have been successful in attracting both Future High Streets and Town Deal funding to transform Blyth town centre. The Council's Cabinet approved the Outline Business Case in September 2023 to enable progression to Full Business Case.
2. Following an extensive value engineering exercise, the confirmed total cost of the project approved by Cabinet at Full Business Case was £13,580,504. This was an increase of £2,405,504 to the estimated pre-tendered costs which were approved by Cabinet following OBC external appraisal. The breakdown of the costs were as follows:

<b>Item</b>	<b>Capital</b>	<b>Revenue</b>	<b>Total</b>
<b>Capital</b>			
Construction	10,485,506		10,485,506
Demolition and Enabling Works	800,956		800,956
Furniture, equipment and specialist services	250,000		250,000
Professional fees, surveys, investigations	870,550		870,550
Acquisition of Commissioners Quay car park	200,000		200,000
Relocation	150,000		150,000
Contingency	823,492		823,492
<b>Sub-total</b>	<b>13,580,504</b>		<b>13,580,504</b>
<b>Revenue</b>			
Centre Management/Learning delivery		200,000	200,000
<b>Sub-total</b>		<b>200,000</b>	

3. Reported construction costs at £10.486m were based on Galiford Try's proposed contract sum for the works, and a value engineering (VE) exercise undertaken by Hall and Partners (quantity surveyors and employers agent). The value engineering exercise covered 85 separate items across 20 subcontract packages which required redesign and retendering from January 2023. The VE identified £1.600m of savings, however, on completion of tenders only £0.931m of savings have been achieved.

4. The key areas where savings were not achieved are as follows.
  - a. Intumescent paint (fire protection) - the saving was offered on the basis that a water based paint could be used rather than solvent based. However due to the marine environment and the time required to encapsulate the steel frame in the building envelope it was not possible to fully realise the savings.
  - b. Metalwork – the previously selected subcontractor has been removed from Galliford Try supply chain due to poor performance and a decline in financial stability, the 2<sup>nd</sup> place contractor is now being proposed at an increase of £0.101 million.
  - c. Roofing and cladding – a VE shortfall of £0.300 million due to planning approval issues, errors in the initial proposal and inflation of certain cladding element which has eroded savings in other areas.
  - d. Fencing – reductions in specification were not permitted by the Harbour Master and the length of fencing increased resulting in £0.050 million increase.
  - e. The programme duration has been extended resulting in a £0.020 million increase.
5. A small additional saving in the Mechanical and Engineering costs of £0.08m has also been achieved.
6. As a result of the above the construction costs are now confirmed at £10,561,790. However, it should also be noted that the contract sum still includes provisional sum allowances of £0.610 million due to delays in securing tenders and the volatility of construction prices. These sums can vary up or down and so have been reviewed in detail with Galliford Try and the design team to assess the risk associated with them. The majority of the items are of low risk and the allowances made are robust. The following points should be noted:
  - a. £0.162 million relates to costs for statutory service connections for Electric and Telecommunications and are based upon valid quotations.
  - b. The fixed price offer assumes that all surplus materials are classified as 'inert'. A sum of £0.230 million has been included as a provisional sum to cover the extra over cost should ALL material be classified as 'non hazardous'. During the enabling works all material has been inert. Further testing has been carried out in some of the yet to be excavated areas to attempt to derisk this item further. This item is deemed to be low risk and the figure would only be at risk if significant quantities of 'hazardous' materials were to be found.
  - c. An allowance of £0.050 million has been made to cover potential revisions in the fire strategy. The fire engineer has closed their practice due to retirement and this has required a new fire engineer to be appointed and it is possible that they could disagree with some of the original design principles.
7. Enabling works have increased by £0.023m This covers the relocation of the leading light marine station by Port of Blyth and increased costs incurred removing ground obstructions during the installation of the drainage pumping station.
8. Fees have increased from £0.871m to £0.999m. This covers the additional design fees to achieve the £0.931m VE as well as fees associated with the land transfer and acquisitions between NCC , PoB ECC ltd and Advance Northumberland

9. In order to cover the lower VE sums achieved and the increases in enabling works and fees, the Council will be able to draw on the contingency budget allocated to the project. However, this will reduce the contingency budget from £0.823m to £0.074 million prior to commencement of the main contract. However, drawing on the contingency budget ensures the total cost of the project falls within the delegated limits approved by Cabinet in April 2023.
10. Due to the low level of contingency remaining it is recommended that the cost to acquire Commissioners Quay car park (£0.200 m) is taken out of the total project costs and vired to the Energising Blyth Project Delivery Support budget.
11. A separate report for Cabinet consideration will set out proposals to vire the costs of the associated car park works (£0.355 m) currently included in the construction costs, to the Energising Blyth Project Delivery Support budget. The current balance and status of this budget is provided in Annex 1.
12. In addition £0.082m of costs within the Galliford Try contract sum which have been budgeted for within the additional 'DLUC deep dive' funding, can be taken into account. When taking into account all of the above, the revised costs of the project are as follows, subject to approval.

<b>Revised costs 16-05-23</b>			
<b>Item</b>	<b>Capital</b>	<b>Revenue</b>	<b>Total</b>
<b>Capital</b>			
Construction	10,561,790		
Demolition and Enabling Works	823,368		
Furniture, equipment and specialist services	250,000		
Professional fees, surveys, investigations	999,918		
Acquisition of Commissioners Quay car park	0		
Relocation	150,000		
Contingency	795,428		
<b>Sub-total</b>	<b>13,580,504</b>		<b>13,580,504</b>
<b>Revenue</b>			
Centre Management/Learning delivery		200,000	200,000
<b>Sub-total</b>		<b>200,000</b>	

## **IMPLICATIONS**

<b>Policy</b>	The project fully supports the NCC Corporate Plan, the Northumberland Economic Strategy and the Town Investment Plan
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<p><b>Finance and value for money</b></p>	<p>For an allocation of £7.080m the Council is securing an external investment of £6.700m. £2.500m of NCC's capital allocation is 'match funding' to Town Deal Grant (£4.700m) and NTCA Grant (£2.000m) £4.380m is from the Project Delivery Support Budget.</p> <p>An allocation of £0.550m from the Project Delivery Support Budget is required for costs outside of the Energy Central Campus Phase 1: Learning Hub project.</p> <p>All financial resources for the project are identified in the Energising Blyth (EB) Programme and in the Medium Term Financial Plan.</p> <p>Town Deal Revenue expenditure is forecast to accelerate above the allocated budgets for 2023/2024 (based on the Town Deal Heads of Terms) to meet project objectives. Should DLUHC not approve this acceleration, there are sufficient funds within existing approved Council revenue budgets to 'cash flow' this expenditure. There is no increase in the overall revenue costs of the project</p> <p>External advice was received on VAT which has been taken on board in the delivery model.</p>
<p><b>Legal</b></p>	<p>NCC has received legal advice from DWF LLP regarding subsidy control compliance as part of the development of the project and the project is to be delivered in accordance with this advice to ensure compliance. The external advice has been updated to reflect the FBC and any legislative and / or funding changes.</p> <p>Legal Services will work with the company Directors to ensure an appropriate Partner Agreement is in place.</p> <p>The Local Authorities (Functions and Responsibilities)(England) Regulations 2000 confirm that the matters within this report are not functions reserved to Full Council</p>
<p><b>Procurement</b></p>	<p>The JCT works contact will be managed by NCC in accordance with Public Contracts Regulations. Project spend will be subject to the Council's recognised procurement procedures.</p>
<p><b>Human Resources</b></p>	<p>The project is being developed with support from NCC's Energising Blyth Programme Team in conjunction with the partner lead (ECC Ltd) and the appointed external Project Manager. Advance Northumberland have assisted ECC Ltd with lease and licence arrangements and Project Management Services. The revenue running costs of the establishment are summarised in the report.</p>
<p><b>Property</b></p>	<p>NCC is one of 3 founding partners of ECC Ltd. ECC Ltd is lessee to the land on which the development will be located. Provision will be made within a Partner Agreement to protect the financial interests of the Council should ECC Ltd fail.</p>

	NCC will acquire the Freehold interest of Commissioners Quay car park and ECC Ltd will lease the land.
<b>Equalities</b>	(Impact Assessment attached) No <input type="checkbox"/>
<b>Risk Assessment</b>	A risk register is in place for the project which will manage and monitor risk.
<b>Crime &amp; Disorder</b>	This project is part of the proposals in the Energising Blyth Programme which in totality include various measures intended to reduce crime and disorder in Blyth through positive regeneration measures. DLUHC have confirmed a £200,000 funding package through 'Deep Dive' to create a Safe and Welcoming Town Centre
<b>Customer Consideration</b>	There has been partner and community consultation throughout the development of the project and in particular with existing building users in and around the site.
<b>Carbon reduction</b>	The Energy Central Campus will support the county's contribution to carbon reduction and clean growth objectives. This will provide new research, development and education facilities supporting industry needs in the offshore wind and energy industry.
<b>Wards</b>	All wards in the town of Blyth, with learners and businesses from the wider County and North East benefiting from the skills and training provision.

### **Background papers:**

Further information is available at: [www.northumberland.gov.uk/energisingblyth](http://www.northumberland.gov.uk/energisingblyth)

Energy Central Campus Phase 1 – Learning Hub – Full Business Case – Full Business Case - March 2023

### **Author and Contact Details**

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## DECISION TAKEN

<b>Title of Officer(s) and Portfolio Holder (where appropriate):*</b>

Jan Willis, s151 Officer

**Subject:**

**Consultation\*** (if the Director is required to consult a Portfolio Holder summarise the outcome of that consultation opposite and its impact on the decision)

The Portfolio Holder, Cllr Ploszaj, has been consulted and is supportive.

**Decision Taken:**

Reallocate the costs to acquire Commissioners Quay car park (£0.200 million) to the Energising Blyth Project Delivery Support budget, under delegated authority pursuant to Part 9, Section 3 of the Constitution

Signature of:  
Executive Director



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**Date**

19/05/23

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\* delete as appropriate

## Annex 1 – Energising Blyth Acquisitions and Project Delivery Support Budget (15.05.23)

		Status
<b>Energising Blyth Acquisitions/Delivery Support Budget (as profiled in</b>	<b>17,326,972</b>	
<b>FHSF</b>		
CCMP RIBA 2 cost increases	7,338,618	Pre-tender estimate. Stage 1 complete, Stage 2 due Aug 23
Gasholder site acquisition	290,000	Committed, Exchange and Completion May 23
Keel Row Shopping Centre + 7-9 Bridge Street acquisition	2,445,000	Committed, Exchange and Completion May/June 23
The Link	212,864	Pre-Tender estimate at Outline Business Case (inflation allowance)
<b>Sub Total</b>	<b>10,286,482</b>	
<b>TD</b>		
NCC contribution to NEP1 (balancing figure)	31,621	Committed and defrayed
ECLH post -tender cost increase	4,580,504	Committed, Post Tender, subject to contract
Northern Gateway Phase 2 cost inflation	396,821	Pre-Tender estimate at Outline Business Case (inflation allowance)
3-5 Birdge Street acquisition	88,750	Approved subject to acquisition of Keel Row/7-9 Bridge St
1 Bridge Street and 2, 4-6 + 8 Regent Street acquisitions	495,000	Subject to approval by S151 Officer
<b>Sub Total</b>	<b>5,592,696</b>	
<b>Profile 11.05.23</b>	<b>15,879,178</b>	
<b>Balance</b>	<b>1,447,794</b>	