

Alderley Edge Medical Centre

Report on funding

Following the Parish Council's decision at its last meeting to set up an additional £500,000 loan facility, comments have been made about it by former Councillors on alderleyedge.com, claiming that the additional £500,000 is not necessary.

I believe it is important that we set out as clearly as possible why this is incorrect. That is the purpose of this document.

The Parish Council has raised the additional £500,000 facility for very sound reasons. We are sorry if that has caused any personal embarrassment to any former Councillor. We did not ascribe blame for the situation to any named individual, and indeed we have been generous and sincere in our praise of the work that they put in over many years.

However, we now have a greater responsibility to the people of Alderley Edge to report the facts as clearly and accurately as possible, and it is unavoidable that questions should be asked about why this additional funding is required.

There are two reasons why the additional £500,000 loan – over and above the £2million already raised – is needed.

Construction fees

The first stems from the building contract, which covers both the Medical Centre and the new entrance and toilets for the Festival Hall. Former Councillors have said that this is capped at £2million; it is actually capped at £2,162,165.

This is an extract from the actual building contract:

Article 2: Contract Sum

The Employer shall pay the Contractor at the times and in the manner specified in the Conditions the VAT-exclusive sum of two million, one hundred and sixty two thousand and one hundred and sixty five pounds (£2,162,165) ("the Contract Sum") or such other sum as shall become payable under this Contract.

So we immediately have a shortfall of £162,165.

Professional Fees

The contract covers some professional fees, such as those for the architects, but it does not include the legal and project management fees charged by the Parish Council's lawyers, Slater & Gordon, and Arcus, our managing agents. Some of these fees have already been paid, but much has not. We considered it prudent, as part of the PC's risk management process, to allow an additional £100,000 to cover this.

So we now have a shortfall of up to £262,165.

Fitting out Pharmacy and 2nd Floor

In order to make the Pharmacy and second floor lettable the Parish Council needs to install basic sanitary facilities – toilets and washrooms as a minimum. Former Councilors have said that it was impossible to anticipate what the specific requirements of the tenants would be. We believe that it is still both possible and necessary to make allowance in the budget for estimated fitting-out costs. After all, are there any offices which do not require toilet facilities for their staff?

So the shortfall is now potentially over £300,000.

Security Fence

The building specification calls for the erection of a security fence around part of the site. We agree with the previous Parish Council that this fence is inappropriate. However, the requirement for a fence or other agreed security arrangement still appears in the agreement with the NHS, but no cost has been allowed for it. We have initiated negotiations to remove it but this is not currently guaranteed.

So we face a further potential liability which we are making provision for.

Contingency

It is normal in such projects to allow a contingency in the budget. The level of this contingency varies depending on the risks associated with the project but 10% might be deemed 'normal'. We have therefore also built some contingency into our figures.

I said that there were two major reasons for the differences between our figures and those of former Councillors. The second is this:

£500,000 payment from NHSE

One former Councillor has referred to the £500,000 which we are due to receive from NHSE as a 'capital contribution', to be paid shortly before the building is completed.

This is not correct.

The £500,000 from NHSE has sometimes been referred to in documents as 'capital funding', but it is actually advance rent.

For the first 6 years the Parish Council will in effect have to pay this back to NHSE by charging the doctors some £90,000 less in rent each year - £45,000 rather than the market rate of £135,000. The NHS calls this the Concession Rent (CMR).

This is set out in section 15.1 of the Agreement for Lease signed by the PC and the doctors, from which this extract is taken:

For avoidance of doubt the Initial Concessionary Rent (as defined in the Lease) will be £45,000 plus VAT per annum and furthermore the Initial Rent shall not be

While the PC is making repayments on its £2million loan of around £160,000pa it will only be receiving just £45,000 from the doctors. Our cash flow forecasts show that, even with other income, we will need to retain most or all of the £500,000 to meet our commitments in the future.

A former Councillor has also stated that we will receive the £500,000 when the building is 'near completion'. This is not the case.

We will receive the £500,000 only when the building has actually been completed and it has been signed off as ready for occupation by the doctors.

We will therefore not receive the £500,000 until some time after we have already incurred the bulk of the build costs, and after we have started to make repayments on the £2million loan - the first being due in December 2015.

This delay in receiving the funds naturally has an adverse impact on our cash flow, as we will have to pay monies out before receiving the £500,000.

Cash Flow impact

Without the facility to increase our borrowings then our cash flow forecast indicates a shortfall of some £329,000 by April 2016, one or two months before we can expect the £500,000 advance rent from the NHS.

Summary

- The build costs in the contract are capped at £2,162,165 not £2,000,000 and the contract proves this.
- There are additional professional fees that have not previously been budgeted for, which could add up to a further £100,000.
- There are additional fit-out costs for the second floor and the Pharmacy, which have not previously been allowed for.
- There may be additional costs to provide appropriate security for the Medical Centre, which are not in the budget.
- The £500,000 to be paid by NHSE is not a contribution to the build costs. It is advance rent. And it will not be paid to us until after all the building work has been completed. It is also conditional on the completion and signing off of the Medical Centre by 31st March 2016 and is therefore not 100% guaranteed.

It is worth adding that we face similar funding challenges on the refurbishment of the Festival Hall, which we shall report on at a later date.

As a group of independent Councillors we believe we bring a strong mix of skills to the Council; all of us have direct business experience and several of us have

managed multi-million pound projects. We make no claims, however, to being infallible, which is why we consult as widely as possible before taking decisions.

We are always open to receiving new information and well thought out proposals where these are put forward in the interests of the residents of the village.

In that spirit, if any former Councillor has information – backed by evidence - that materially changes what I have set out above, then I shall be delighted to receive it and make public acknowledgement of the fact.

Until then, we shall as a Parish Council continue to proceed prudently, in line with the auditor's recommendations, to take whatever measures we can to minimize the considerable risks associated with this project.

Geoff Hall
Chair
Alderley Edge Parish Council
September 2015