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| HIGH LIFE HIGHLAND  REPORT TO BOARD OF DIRECTORS  31 MARCH 2022 | AGENDA ITEM REPORT No HLH/ /22 |

## **INVERNESS CASTLE – Managing agent - Report by Chief Executive**

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| **Summary** The purpose of this report is to provide Directors with a summary of the key points within a report presented to The Highland Council’s Corporate Resources Committee on 26 January 2022 in respect of developments at Inverness Castle and to set out recommendations in relation to the proposed role of High Life Highland when the castle opens in 2025.  It is recommended Directors agree that:   1. High Life Highland accept the request from The Highland Council to become the Managing Agent of Inverness Castle when it opens in 2025; and 2. High Life Highland accept the proposal to manage the programme to reinvest 50% of the profit share from the operation of Inverness Castle to support the development of leisure, cultural and tourism facilities and services throughout the Highlands (outside the Inverness City centre boundary) on behalf of The Highland Council. | |
| **1.** | **Business Plan Contribution** |
| 1.1 | This report supports the highlighted Business Outcomes from the High Life Highland (HLH) Business Plan:   1. Seek to continuously improve standards of health and safety. 2. **Commit to the Scottish Government’s zero carbon targets and maintain the highest standards in environmental compliance.** 3. **Use research and market analysis to develop and improve services to meet customer needs.** 4. **Increase employee satisfaction, engagement and development to improve staff recruitment and retention.** 5. **Improve the financial sustainability of the company.** 6. **Value and strengthen the relationship with THC.** 7. **Develop and deliver the HLH Corporate Programme and seek to attract capital investment.** 8. **Use research and market analysis to develop and deliver proactive marketing and promotion of HLH and its services.** 9. Initiate and implement an ICT digital transformation strategy across the charity. 10. **Develop and strengthen relationships with customers, key stakeholders and partners.** 11. **Deliver targeted programmes which support and enhance the physical and mental health and wellbeing of the population and which contribute to the prevention agenda.** |
| **2.** | **Background** |
| 2.1 | On 26 January 2022 a report was presented to The Highland Council’s Corporate Resources Committee by the Executive Chief Officer of Performance and Governance. The purpose of this report was to provide Members with an update on the progress of the Inverness Castle Project, summarising the tender negotiations of the main construction contract, outlining the project’s current funding position, seeking approval to proceed with the award of the main construction contract and setting out proposals for the operating model of the new visitor attraction. |
| 2.2 | The following three recommendations in relation to High Life Highland were presented and approved during the meeting.   1. ‘Agree that High Life Highland will be the Managing Agent of the new visitor attraction on behalf of The Highland Council’; 2. ‘Agree that a stand-alone Service Level Agreement be devised between The Highland Council and High Life Highland and that the financial model operates on the basis of an equal profit sharing split, once all operating costs and loan repayment charges are met’; and 3. ‘To ensure that the funding support from the Inverness and Highland City Region Deal is used to the benefit of the wider Highlands and not just Inverness, agree that the 50% profit retained by High Life Highland be restricted to supporting the development of leisure, cultural and tourism facilities and services throughout the Highlands (outside the Inverness City centre boundary) on behalf of The Highland Council.’ |
| **3.** | **Managing Agent** |
| 3.1  3.2  3.3  3.4  3.5 | HLH has been acting as the Council’s Managing Agent for the Inverness Castle Project. HLH’s Director of the Inverness Castle Project has been leading the Project Team responsible for designing and constructing the new visitor attraction as Phase 1 of the Masterplan for the Castlehill area.  The project is supported by Inverness and Highland City Region Deal (CRD) funding. One of the key requirements to be able to draw down CRD funding is to secure both UK and Scottish Government approval of the project’s Final Business Case (FBC). The first draft of the FBC was submitted by the Project Team in early January 2022 and feedback from both sets of Government officials contained no material issues.  The feedback has been incorporated and the final draft of the FBC has been submitted for approval. A copy of the Executive Summary of the FBC is presented in **Appendix A.**  In preparing the Outline Business Case which underpinned the FBC, a range of options were considered to identify the optimum operating model for the new visitor attraction. Options included putting the operation out to tender, creating a separate trust to manage the facility, Council officials managing the building, as well as asking HLH to become the Managing Agent on behalf of the Council. The review of options as part of the development of the Business Case resulted in the recommendations which were presented to the Corporate Resources Committee in January.  The first purpose of this report is to present the request by The Highland Council for HLH to act as the Managing Agent of Inverness Castle when it opens and to recommend that Directors respond positively. |
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| **4.** | **Investment of Operating Surplus** |
| 4.1  4.2  4.3  4.4 | Within the FBC a ten-year financial forecast is presented showing the projected expenditure, income and surplus of the new visitor attraction. The forecast is presented in **Appendix B.**  It is projected that in the mature operating years (year 3 onwards) there will be an annual operating surplus of £300K. The Council proposes that a stand-alone Service Level Agreement be devised between The Highland Council and HLH and that the financial model operates on the basis of an equal profit sharing split, once all operating costs and loan repayment charges are met.  The Council will invest its 50% in its savings targets, while requesting that HLH restrict the use of its 50% to support the development of leisure, cultural and tourism facilities and services throughout the Highlands (outside the Inverness City centre boundary) on behalf of The Highland Council.  The second purpose of this report is to present the request by The Highland Council for HLH to invest its 50% of the profit from the operation of Inverness Castle in the manner set out in section 4.3 and to recommend that Directors respond positively. |
| **5.** | **Implications** |
| 5.1 | Resource Implications – it is projected that there will be positive resource implications for HLH from the financial year 2026/27, following the first full year of operation of the new visitor attraction. |
| 5.2 | Legal Implications – A separate Service Level Agreement between The Highland Council and High Life Highland will be devised to set out the terms by which HLH will act as the Council’s Managing Agent. |
| 5.3 | Equality Implications – an Equalities Impact Assessment (EQIA) has been devised for the project and is set out in the Final Business Case. |
| 5.4 | Risk Implications – the Risk Register for the project has been devised and is set out in the Final Business Case. |

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| **Recommendations** It is recommended Directors agree that:   1. High Life Highland accept the request from The Highland Council to become the Managing Agent of Inverness Castle when it opens in 2025: and 2. High Life Highland accept the proposal to manage the programme to reinvest 50% of the profit share from the operation of Inverness Castle to support the development of leisure, cultural and tourism facilities and services throughout the Highlands (outside the Inverness City centre boundary) on behalf of The Highland Council. |

Designation: Chief Executive

Date: 15 March 2022

Author: Fiona Hampton, Director of Inverness Castle

**APPENDIX A – FINAL BUSINESS CASE EXECUTIVE SUMMARY**

Introduction

1. Inverness Castle is an iconic Category A listed building of national and international significance, situated in the centre of the Inverness, on Castlehill above the banks of the River Ness. It was historically used by the Scottish Courts and Tribunals Service (SCTS) for court and office purposes. However, SCTS moved from the Castle in May 2020. This provided a real opportunity to create a significant tourism asset for Inverness at the Castle that would act as a focal point for the promotion of tourism across, the Highlands.
2. Inverness Castle is owned by The Highland Council (THC) and will be managed by High Life Highland (HLH) on behalf of the Council. HLH is the Council’s arms length culture and leisure trust, wholly owned by THC.
3. Governance of the Inverness Castle Project is by the Inverness Castle Delivery Group, jointly Chaired by Helen Carmichael, the Provost and Leader of Inverness and Area, and Fergus Ewing MSP. The Delivery Group have established the following vision for the project:

*‘To take the opportunity of the relocation of the SCTS from Inverness Castle to create a sustainable and viable must-see centre that innovatively celebrates the ’Spirit of the Highlands’ its creativity, culture, heritage and landscape. The centre will attract new and repeat visitors to the area, will be embraced by the people of the Highlands and will inspire all to visit other parts of the Highlands’.*

1. An Outline Business Case (OBC) was developed for the project during 2019 and 2020. The final version of the OBC was approved by the UK and Scottish Governments in October 2020, subject to the Final Business Case (FBC) addressing any outstanding comments from the OBC development process.
2. The project has been developed further and several changes have been made to the Preferred Option to improve the overall outputs and benefits of the scheme, and as a result of the prevailing market conditions principally caused by the Covid-19 pandemic and to some extent BREXIT.
3. A key focus of the Delivery Group was to ensure that the new attraction should be inclusive and have universal access wherever possible. This resulted in two significant improvements and additions to the original design proposals:

* the addition of a new roof terrace in the South Tower universally accessible to all visitors through the installation of a new lift; and
* improving the accessibility and inclusivity of the new attraction by significantly enhancing the grounds around the Castle to make the outdoor areas a (free to access) visitor attraction in their own right.

1. The continuing presence of Covid-19 and its impact on the tourism and construction sectors has also affected the project in two major ways:

* increasing the tendered construction cost of the redevelopment; and
* the withdrawal of the preferred Visitor Attraction Tenant for the North Tower.

1. The project has been reshaped to accommodate an alternative approach to the North Tower offer and operation, requiring the fit out of the North Tower to be included in the project costs (originally assumed the tenant would fund the fit-out costs). The North Tower will include a visitor experience celebrating Highland music and the Ceilidh, a whisky experience, retail space and the existing viewing tower. The whisky experience will be operated by a third-party tenant, with HLH operating the rest of the attractions and retail offering.
2. The overall project funding package has been adjusted and increased to meet the increased costs.
3. Alongside the core Castle project, the Council submitted a successful application to the Levelling Up Fund to support the delivery of a Waste Water Heat Recovery Energy Centre as part of the overall Castle project This will bring significant additional environmental, carbon and social benefits to the overall project.
4. This FBC follows the principles of the Better Business Cases guidance and the format of HM Treasury Five Case Business Model and is structured as follows:

* Strategic Case – revisits the Case for Change and reconfirms the project objectives;
* Economic Case – sets out the updated economic case for the project;
* Commercial Case – sets out the negotiated deal and contractual arrangements;
* Financial Case – sets out the financial implications of the deal, including affordability and fundability of the scheme; and
* Management Case – sets out the final project management and delivery plans, including: project management approach; change management arrangements; benefits realisation plan; risk management and contract management plans.

The Strategic Case

1. The key points to note from the strategic case include the following.

* The strategic case for the Castle set out in the OBC remains valid and has arguably improved in the past 18 months.
* The Castle will form a key part of the regeneration of Inverness City Centre, which will support the economic recovery of the City and wider Highlands in the post pandemic phase.
* The Castle project is now more strongly aligned with the most recent strategies and research from VisitScotland.
* It fully delivers on Scotland’s ambition of being a world leader in 21st Century, with tourism being a high quality, sustainable, inclusive and accessible attraction that supports both local and regional communities.
* The project objectives and critical success factors have been reviewed and updated to ensure they and reflect the current status of the project and will be used for future monitoring and evaluation purposes.
* Overall visitor numbers to the Highlands, Inverness and its key visitor attractions increased in 2019, prior to the pandemic and provide a strong basis for the market assessment and initial visitor projections.
* The overall benefits anticipated from the project have increased through its development, including the addition of:
  + - additional amenity value through publicly accessible space in the gardens;
    - increased investment outwith Inverness City Centre (through the HLH profit share reinvestment plans); and
    - reduced carbon footprint (linking to the LUF funded energy centre in Phase 1a).

The Economic Case

1. The key points to note from the economic case include the following.

* The economic case has examined the Net Present Social Costs and Benefits of the Inverness Castle scheme over a ‘Do-Nothing’ reference case.
* The benefit streams highlight the importance of the redevelopment of the Castle as a major cultural asset and in increasing footfall to the City and wider Highlands, thus increasing wider land and asset values.
* The scheme, through its innovative approach to interpretation, will also be a major attractor of international visitors for Scotland and the UK.
* The national level impact analysis shows that the scheme delivers a Benefit Cost Ratio (BCR) ratio in the ‘high’ value for money range.
* The estimated BCR is 2.9:1.
* The annual net additional local economic impact is estimated at £13.9 million of expenditure, generating Gross Value Added (GVA) of £5.5 million and supporting 275 FTE jobs (including indirect and induced effects).
* The Castlehill redevelopment forms part of wider plan of bringing three cultural assets (including Bught Park and the Northern Meeting Park) back into use around a net zero carbon vision for the City.
* The delivery model will generate operating surpluses of circa £300K per annum which will ensure Inverness Castle remains relevant as part of the cultural offer and is sustained for the public good.
* 50% of the operating surplus will be reinvested in the cultural, leisure and tourism infrastructure across the Highlands, out with the City centre boundary.

The Commercial Case

1. The key points to note from the commercial case include the following.

* The procurement and appointment of additional design team members and other specialist advisors, including Gaelic Cultural Advisors, has been advanced.
* The appointment of Mather & Co as Exhibition Content Design Partner in March 2021.
* Further development of the Spirit of the Highlands creative content including: Spirit Autobiography, Spirit 360 and the Tapestry of the Highlands and Islands.
* Completion of the enabling works contract in July 2021 within budget.
* Procurement of the main construction works package.
* The construction works procurement was based on a traditional contract using an open tender, to maximise value for money.
* The tender returns received were significantly over the Pre-Tender Estimates, largely due to the impacts of Covid-19 and Brexit on the construction market (high material prices, labour and material shortages, increases in fuel prices).
* A value engineering exercise was undertaken, and revised tender prices received.
* The tenders were assessed on a combination of quality and price, and a preferred contractor identified.
* The tender is open for acceptance until 31st January 2022.
* The next phase of procurement required for the fit out and installation stage of the project is planned.
* Proposals to formalise the future relationship between THC and HLH for the operation of the Castle are in train.
* The FBC includes a full risk register, setting out the main project risks (both pre and post mitigation measures being put in place).
* Once post mitigation measures have been applied, there are five major risks that remain as ‘Red’ items. These are:
  + - impact of both Covid and Brexit on construction (supply chain, materials, labour, cost overruns and or programme delay);
    - design exceeding cost;
    - contract costs increasing; and
    - loss or reduction of Council capital funding.

The Financial Case

1. The key points to note from the financial case include the following.

* The overall Project Cost is £35.9m, to be funded by:
  + - City Region Deal – Scottish Government: £13,264,077
    - City Region Deal – UK Government : £100,000
    - The Highland Council (Capital) : £9,800,000
    - Highlands & Islands Enterprise : £2,000,000
    - The Highland Council (borrowing) : £5,755,000
    - Scottish government Tourism and

Economic development grant (tbc) : £4,635,923

* + - Historic Environment Scotland[[1]](#footnote-1) : £350,000
* The operation of the visitor attraction will generate £4.5m revenues per annum in a mature year and the annual running costs will be £4.2m in a mature year.
* A surplus of c£300k will be generated annually from Year 3 (mature year)
* There will be a negligible impact on the Councils balance sheet and income and expenditure account.
* The Council can allocate 50% of the profit share to its savings targets.
* There will be a negligible impact on the HLH balance sheet, but a positive impact on HLH income and expenditure account.
* HLH will invest 50% of the profit share in the Highlands region (outwith Inverness city centre).

The Management Case

1. The key milestone set out within the management case include the following.

* The main construction contractor will be appointed in January 2022.
* Mobilisation of the contract will be between February and April 2022.
* The construction contract will last from April 2022 to November 2024.
* The interpretation fit out will take place from October 2024 to April 2025.
* The opening of the new visitor attraction is planned for spring 2025.

1. The management case also presents a Marketing and Communications Plan, an Equalities Impact Assessment and a Benefits Realisation Plan, all of which are appended to the FBC.
2. The first draft of the FBC was submitted to the UK and Scottish Governments on 17th January 2022. Feedback and comment from both sets of officials is awaited to move the FBC to a final draft to be submitted for approval in February 2022.

**APPENDIX B – TEN YEAR PROFIT AND LOSS**



1. Funding application submitted in December 2021 [↑](#footnote-ref-1)