

**Executive**

**29 October 2015**

**Report of the Assistant Director - Finance, Property & Procurement  
Portfolio of the Executive Member for Finance and Performance**

**The Future of York's Guildhall & Riverside**

**Summary**

1. The purpose of the report is to agree the next steps necessary to secure the future of the Guildhall complex following the project review, as agreed by Executive on 30 July 2015, and in response to the recommendations of the recent Scrutiny review.

**Recommendations**

2. Executive is recommended to approve the Scrutiny recommendation and confirm detailed project development work as follows:

- (i) Approve option 4 of the project review; to create a serviced office venue with virtual office and business club facilities. This option secures the future of the Guildhall by maximising the benefits of; the different spaces within the complex, its heritage appeal, the accessible location, and also ensures ongoing council use and public access, in a mixed use development.

Reason – to ensure that the ongoing project development is based upon the most advantageous and viable option for this key council asset.

- (ii) Confirm the appointment of a multi-disciplinary design team led by architects Burrell Foley Fischer, selected following a detailed and EU compliant procurement process, and agree that further design work is undertaken to develop a detailed scheme and associated business case, based on the approved option. Project development will be progressed on a stage by stage basis, drawing on the previously approved development budget

of £500k, with a report back to Executive for final approval to proceed in summer 2016.

Reason – to ensure that the necessary detail is available to inform an Executive decision on project delivery in summer 2016.

- (iii) Confirm the selection of a commercial operating partner. The project team will consider the most appropriate and advantageous lease or service contract arrangements. The selection process to be confirmed following legal advice on the most effective option.

Reason – to ensure that the Guildhall will attract the high levels of use necessary to secure future viability, delivery of the wider economic benefits to the City, and manage the financial risk to the council.

- (iv) Confirm a programme of engagement with the City's business sector / target market to understand their requirements, facilitated through joint working with project partners; the Universities and Make it York.

Reason – to ensure that the Guildhall offer will meet the needs of business and that the detailed business model is based on sound assumptions.

## **Background**

3. Cabinet approval was given in December 2014 for further project development work and was confirmed following scrutiny call-in in January 2015. This approval included;
- The procurement of a design team.
  - The procurement of an operating partner to take forward and develop plans for the Guildhall complex.
  - Release of an additional £500k from the previously approved project budget of £1.4m to fund the detail design of the scheme and gain statutory approvals, also funding specialist finance, procurement and legal support where necessary.
  - Interim use / urgent works proposals with a draw down of up to £90,000 from the capital scheme already committed for the Guildhall roof.

4. However, the council's new administration were keen to ensure that this high profile project benefited from a review process involving cross party scrutiny, to provide greater certainty that the project being developed was the most appropriate and viable option for this key council asset. On 30 July 2015 Executive agreed to a review of 4 different options for the future Guildhall complex.
5. The review was based on the feasibility study floor plans in each case, with the different uses allocated across the floor plans, and with appropriate adjustments made to the capital costs. The assumptions and assumed rental levels were clearly set out in each case and the accompanying capital cost plans & business cases indicated the relative viability of the different options. This approach allowed for more effective comparison between the options.
6. A background report was presented to Corporate & Scrutiny Management Policy & Scrutiny Committee (CSMC) at the formal meeting on 14 September. On 16 September, at an informal meeting with external experts also invited to contribute. The 4 options were presented and discussed in detail. The scrutiny reports and supporting detailed information are attached at annexes 1- 3.

### **Summary of Project options including GVA analysis**

7. The project review assessed the 4 different use options, as agreed by Executive on 30 July, and presented; the capital costs based on the feasibility scheme floor plans and viability based on a business case factoring rental income in a typical year. A summary tabulation of the key assumptions and the strengths and weaknesses of each option was produced to enable effective comparison. These tables are attached at annex 3.
8. The options also considered the likely Gross Value Added GVA, or economic benefit, to the local economy. The GVA calculation was undertaken by the North Yorkshire and East Riding Enterprise Partnership Business Intelligence Unit, using their Regional Econometric Model REM. This is an input / output model and provides projections for the 4 options, based on the assumptions outlined below.
9. In all options the construction jobs were calculated using the HCA public sector project ratio of jobs per £m of construction cost spend. The creation of a premium restaurant to the south range and a cafe

bar overlooking a new riverside courtyard garden to the north was agreed in principle by executive in July and is included in all options; the likely job creation for these elements was based on the respective floor areas, again in accordance with HCA guidance. The overall GVA for each option is dependent on the uses proposed. This approach allowed for more effective comparison between the respective options.

10. All options assume that some of the initial capital outlay will be prudentially borrowed over 30 years and repaid from rental income.

**Option 1** - A generic grade A office development requiring a new build north annex and including a high standard of fit-out, including air conditioning to this area, and with significant refurbishment of the retained Victorian office areas. The Guildhall main hall and the council chamber are comprehensively refurbished and the south range restaurant and north range cafe bar are included.

#### Summary

<b>Guildhall Review Option 1 - Generic grade A office</b>	
	£'000
<b>Income</b>	
projected Rental Income	<b>£268 pa</b>
<b>Cost</b>	
Capital costs	<b>£10,545</b>
<b>Funding</b>	
approved capital budget	<b>£1,350</b>
projected capital receipt	<b>£2,767</b>
Prudential borrowing funded by rental income	<b>£4,358</b>
<b>Funding Gap over 30 years</b>	<b>-£2,070</b>
<b>GVA to Yorks and Humber economy by 2029</b>	<b>£13m</b>

**Option 2** - A commercial offer envisaged as being a visitor attraction occupying the Victorian council offices, Guildhall and council chamber, with the south range restaurant and north range cafe bar included. Additional food / leisure units occupy the new build annex accommodation.

## Summary

<b>Guildhall Review Option 2 - a commercial scheme</b>	
	£'000
<b>Income</b>	
projected Rental Income	<b>£335 pa</b>
<b>Cost</b>	
Capital costs	<b>£9,978</b>
<b>Funding</b>	
approved capital budget	<b>£1,350</b>
projected capital receipt	<b>£2,767</b>
Prudential borrowing funded by rental income	<b>£5,464</b>
<b>Funding Gap over 30 years</b>	<b>-£397</b>
<b>GVA to Yorks and Humber economy by 2029</b>	<b>£6m</b>

**Option 3** - A generic grade A office development at ground floor level, but with 6 no. high spec apartments at first and second floor levels, envisaged as holiday lets, providing a rental income stream. This option still requires a new build annex. The Guildhall main hall and the council chamber are comprehensively refurbished and the south range restaurant and north range cafe bar are included.

## Summary

<b>Guildhall Review Option 3 - office with residential at upper floors</b>	
	£'000
<b>Income</b>	
projected Rental Income	<b>£477 pa</b>
<b>Cost</b>	
Capital costs	<b>£11,066</b>
<b>Funding</b>	
approved capital budget	<b>£1,350</b>
projected capital receipt	<b>£2,767</b>
Prudential borrowing funded by rental income	<b>£7,768</b>
<b>Funding surplus over 30 years</b>	<b>£819</b>
<b>GVA to Yorks and Humber economy by 2029</b>	<b>£5m</b>

**Option 4** – A scheme offering serviced managed office space in conjunction with virtual office / business club services, based on a refurbished annex, with an additional floor added. This takes advantage of the character spaces that would be created for hot desks / break out space allowing high density occupation.

The Guildhall main hall and council chamber are comprehensively refurbished and the south range restaurant and north range cafe bar are included.

## Summary

<b>Guildhall Review Option 4 - refurb serviced offices &amp; business club</b>	
	£'000
<b>Income</b>	
projected Rental Income	<b>£362pa</b>
<b>Cost</b>	
Capital costs	<b>£9,850</b>
<b>Funding</b>	
approved capital budget	<b>£1,350</b>
projected capital receipt	<b>£2,767</b>
Prudential borrowing funded by rental income	<b>£5,898</b>
<b>Funding surplus</b>	<b>£165</b>
<b>GVA to Yorks and Humber economy by 2029</b>	<b>£66m</b>

## Scrutiny Recommendations

11. As part of the project review a detailed summary of the background and feasibility work to date was presented to the Corporate & Scrutiny Management Policy & Scrutiny Committee meeting on 14 September, in preparation for the informal meeting on 16 September where external experts were also invited to advise members (see scrutiny report at annex 2).
12. In discussion and considering the options members of the CSMC felt that the following factors were the most important considerations in securing the future of the Guildhall complex :
  - future flexibility compatible with the heritage status of the building
  - public / community access
  - ongoing council use secured
  - protecting the heritage
  - creating high value jobs
  - the best rental income

13. On this basis the scrutiny committee made a clear recommendation:  
  
Option 4 – was recommended as the preferred option where this was seen as a viable option, and the one which would best secure the future of the complex by taking account of their key objectives as highlighted above. Members agreed with 8 in favour and 1 abstention.
14. CSMC expressed the hope that they would have the opportunity to consider the project again at a later stage in the project cycle to ensure that it was developing in line with their guidance.
15. Further and ongoing consultation will be integral to the project development and will target both specific stakeholder groups and York residents, using a range of events and presentational styles as appropriate and necessary given the high levels of interest in the Guildhall complex.

#### **Project progress update**

16. The project review requested by Executive on 30 July has been completed involving CSMC as directed. The outcome of the review is reported for decision here.
17. The decision of the Heritage Lottery Fund Yorkshire and Humber Committee on 9 September was not to make a funding award to the Guildhall Project. Although the heritage merit of the proposals were recognised there is no certainty that a future bid would be successful and the cost of delay is significant in terms of project costs, ongoing running costs and the inflationary increase in build costs. It is not recommended that we make a further funding bid. The door remains open to apply for a supplementary scheme to open up Common Hall Lane at a later date.
18. The July Executive report agreed the continuation of the Design Team procurement process, and this has now concluded with Burrell Foley Fischer now available to lead the multi-disciplinary team undertaking further project development work. Their appointment will be confirmed on a stage by stage basis. Executive are asked to confirm that they undertake design stages 2 and 3 to take the project to RIBA stage 3, a detailed planning application.
19. The brief for a specialist agent to offer advice on the restaurant and cafe / bar units is being finalised by the project team.
20. The potential to secure Local Growth Funding for this project from the Leeds City Region Local Enterprise Partnership LCR LEP is

uncertain where the delivery of the necessary project spend may not now be achieved in 2016/17. Following the project review a revised business case will be required and it would be prudent to assess the loan requirement on the basis of the detailed business case and with the benefit of a known commercial partner at the appropriate time.

21. The urgently necessary interim repair works have now been completed to roofs and gutters. This should prevent further water ingress and safeguard the complex until the more comprehensive refurbishment works can be undertaken.
22. Interim use of the complex will also be promoted and rental income secured where possible during the interim period, to offset ongoing running costs.

### **Consultation**

23. Project development work will necessarily include consultation with key stakeholder groups and the public. Events and exhibitions will be organised at each project stage to ensure effective engagement with all aspects of the proposals.

### **Analysis**

24. The project review explored different use options to bring the Guildhall back into beneficial economic use and to secure the future of the complex. The review process concluded with a clear recommendation from CSMC that the best option would be option 4; a serviced office venue with virtual office and business club offer operating within the refurbished premises, also ensuring public and community access alongside the council's retained use of the Council Chamber for full council meetings and the Guildhall for key civic events. This also works well with the proposed restaurant and cafe / bar units to the south / north ranges in creating a mixed use development, with better access to the riverside.
25. Further project development work is necessary to produce a detailed design and accompanying business case. It is important that the anticipated capital receipts and rental income from the mixed use proposals will be sufficient to repay the borrowing necessary to finance the capital costs of the scheme. The outline business cases presented to scrutiny indicate that this should be possible for the preferred option. However, a detailed business case must now be produced based on a detailed design and with the benefit of commercial input for reporting back to Executive in Summer 2016.

26. The project development process will need to ensure that the design maximises the flexibility and operational efficiency of the complex for the future. Engaging a commercial partner to operate the serviced offices and business club venue will be vital to its success. The commercial operating partner would manage the complex on behalf of the council ensuring that rental income is maximised and the economic value added benefits to the city are realised. Early engagement will also allow them to inform the detail design and project development.
27. To ensure that the serviced office / virtual office services and business club offer is best suited to the target market it is essential that we consult with business to establish their needs and requirement. There are examples of similar facilities operating in cities across the UK. We have established effective working relationships with Make it York and the Universities through the existing project board structure and consultation with these partners and with the City BID team should be undertaken as part of the project development.

### **Council Plan**

28. The Guildhall project will deliver outcomes which contribute directly to the following objectives in the Council Plan 2015
  - Local businesses can thrive
  - Residents have the opportunity to get good quality and well paid jobs
  - Everyone who lives in the city can enjoy its unique heritage and range of activities.
  - Visitors, businesses and residents are impressed with the quality of our city

### **Implications**

29.

**Financial** - The outline business case as presented to scrutiny included summary capital costs and projected rental incomes for the preferred option (4) in a typical operating year. This approach was designed to indicate the potential viability of the options and allow direct comparison.

At detailed business case stage it will be necessary to model start up phases and costs, and assess the working capital requirement in conjunction with a commercial operating partner. The potential to

fund the proposed development, through council borrowing against the projected rental income, will be established and reported to Executive for approval in summer 2016.

The total capital cost of the preferred option is just short of £10m with £1.35m of approved project funding in place. With possible capital receipts of £2.7m delivery of the project is likely to require prudential borrowing of around £6m with repayment of this borrowing over a 30 year term (including interest) funded by the rental income.

The project development budget allocation was previously approved in December 2014. This is a £500k draw down from the agreed capital approval of £1.4m

**Human Resources (HR)** - The Guildhall is currently managed by the Civic and Mansion House team. It will be important to clarify the role of these staff in relation to the Guildhall, particularly as the Mansion House redevelopment moves forward, but there are no specific HR implications of the decisions in this report.

**Equalities** - There are no equalities implications in relation to the recommendations above. However, there are known problems with the accessibility of the complex and proposals to increase public access will need to address these. The brief for the refurbishment of the Guildhall complex will have access for all as a key requirement. Access to the complex and the council chamber including the public gallery will be significantly improved to meet the requirements of the Equalities Act. A detailed Community Impact Assessment will be produced for the development phase of the project to be monitored by the project board.

**Legal** - The procurement process to select the Design Team has been undertaken in compliance with EU procurement regulations. The appointment to undertake the detail design work will be on a staged basis with break clauses at each stage.

Legal advice will be sought to confirm the most appropriate and advantageous arrangements for securing a commercial partner to operate the serviced office and business club venue.

**Crime and Disorder** - The Design of the complex will involve the Police Architectural Liaison officer to minimise the risk of crime and disorder within the proposals.

**Community Planning & Partnerships** - The project development phase will involve consultation and engagement with both the public and key city stakeholders. The Guildhall Planning panel will necessarily be consulted

**Information Technology** - The most appropriate arrangements for providing IT services for the serviced offices and business club will be discussed and agreed with the Head of IT

**Property** - At this stage the principle of long leases for the peripheral areas of the complex (restaurant / cafe bar) is confirmed, and there is the potential for a short lease to enable a commercial partner to operate the Guildhall complex providing comprehensive FM services.

### **Risk Management**

30. One of the key risks is the potential for deterioration of the complex where much of the space is vacant or under-used. Interim repair works have addressed immediate problems but a significant outstanding repair and maintenance backlog remains that will only be addressed through refurbishment in accordance with a viable new use.
31. A project risk register is maintained for the project and will be updated to reflect the approved option following Executive decision, and monitored by the project board.

### **Contact Details**

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**Report  
Approved**



**Date** 20 October 2015

**Specialist Implications Officer(s)** *List information for all*

Financial Implication - Ross Brown Principal Accountant Tel 551207

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**Wards Affected: Guildhall**

**All**

**For further information please contact the author of the report**

**Background Papers:**

Executive report, 30 July 2015

**Annexes**

Annex 1 - CSMC papers 14 Sept 2015

Annex 2 - CSMC papers 16 Sept 2015

Annex 3 - Options 1- 4 financial analysis summary sheets

Annex 4 - Site plan of the Guildhall Complex

Glossary of abbreviations used in the report;

BID – Business Improvement District

CSMC - Corporate & Scrutiny Management Policy & Scrutiny Committee

EU – European Union

FM – Facilities Management

GVA – Gross Value Added

HCA – Homes and Communities Agency

HR – Human Resources

LCR LEP - Leeds City Region Local Enterprise Partnership

REM - Regional Econometric Model

RIBA – Royal Institute of British Architects