

Executive

16 March 2017

**Report of the Corporate Director of Customer & Corporate Services
and Corporate Director of Economy & Place (Portfolio of the
Executive Member for Finance and Performance)**

The Development of the Guildhall Complex

Summary

1. This report sets out the final business case for the development of the Guildhall complex following the award of planning permission for the scheme in February 2017. The report also requests the necessary budget approval to commence the construction works. This mixed use development will secure the future of the historic buildings; maximising the benefits of the different spaces within the complex, its accessible location, and showcasing its heritage significance.
2. The report sets out the detailed proposals to deliver a greatly improved Guildhall with a viable future use, which will :-
 - Continue to host Full Council meetings and other Civic events
 - Provide a high quality serviced office venue with virtual office and business club facilities.
 - Create new spaces for a high quality commercial restaurant
 - Improve the facilities for the medieval Guildhall including; under-floor heating, improved access / circulation, adjacent foyer space, cloaks / toilets and a cafe/bar, bringing this space into more active public use.

Recommendations

3. Executive are recommended to:
 - I. Agree the detailed business case for the regeneration of the Guildhall as set out in this report.

- II. Recommend to Full Council the total capital budget of £12.780m with prudential borrowing of £8.683m to fund the construction works to develop the Guildhall complex.

Agree to accept the terms of the Local Growth Fund (LGF) grant of £2.347m, from the Leeds City Region Local Enterprise Partnership (LCR LEP)

Reason:-to ensure the future viability and effective re-use of the Guildhall as one of the City's most significant historic buildings, through the creation a vibrant business and civic venue, with supporting commercial development on the riverside.

- III. Agree to make a further listed building consent application to add a second lift into the south range to enable disabled access to both sides of the complex.

Reason: - to ensure that the complex is as accessible as possible for disabled users.

- IV. Agree to the award of a 25 year lease to a restaurant operator for the new build north annex riverside restaurant following a competitive marketing exercise.

Reason:- to ensure that the income generated by the Guildhall complex will fund the regeneration costs and will attract the high levels of use necessary to secure future viability, and manage the financial risk to the council.

- V. Agree to put in place arrangements for CYC to manage and operate the serviced office and business club, Guildhall space and to procure an operator for the cafe provision for the Guildhall complex.

Reason:- to ensure that the Guildhall will attract the high levels of use necessary to secure the future viability of the complex; deliver wider economic benefits to the city; manage the financial risk to the council and ensure the continuing civic use of the Guildhall.

- VI. Agree to procure a construction contractor and to commence the construction of the Guildhall project in accordance with the Planning and LBC approvals and business case.

Reason: – to ensure the regeneration of the Guildhall complex and manage the financial risk to the council of developing a historic building.

- VII. Agree the Mansion House, Guildhall and Common Hall Yard Management Plan to establish how the shared elements of the scheme will facilitate the operation of the Guildhall complex and the effective occupation of the Mansion House by the Civic Party.

Reason: - to satisfy the planning conditions and to ensure that the status of the Lord Mayoralty is enhanced, with safe and effective management and use of the public space and amenity for the Civic Party in the Mansion House.

- VIII. To form a cross party working group, working with Civic and Democratic Services to make recommendations to the Executive on refining the Management Plan before completion of the development and to keep the plan under review in operation.

Reason: - to ensure that the status of the Lord Mayoralty is enhanced, with safe and effective management and use of the public space and amenity for the Civic Party in the Mansion House.

Background

4. The council vacated the Guildhall complex in March 2013, when they moved to West Offices. The complex has been largely vacant and underused over the interim 4 years at a cost of c£125k pa.
5. A condition survey undertaken in August 2013 highlighted a backlog of repair and maintenance items, the poor condition of the complex, life expired services and poor accessibility. The costs of remedial action were estimated at £2m.
6. The complex has continued to deteriorate since that time and there are a number of structural problems identified by subsequent site surveys, which need to be addressed to stabilise the complex. In particular there are issues with notable movement in the north annex tower and some distortion of the southern wall of the Guildhall. The scheme has been designed with underpinning to these areas to prevent further structural movement.

7. The Guildhall complex spans six centuries of development on a riverside site that contains evidence of two millennia of urban development. The buildings are listed at Grade I, II* and II – making the site hugely significant. The main elements of the complex are :

- The Guildhall main hall and associated riverside meeting room dating from 1445 – listed at Grade I
- The early C19th Atkinson block – included in the Grade I listing
- The south range – listed at Grade II
- The late C19th Victorian council offices listed at Grade II*
- The riverside block of the early C20th north annex (former post office) – included in the Grade II* listing
- The remainder of the north annex – unlisted
- The hutments site - unlisted
- Common Hall Yard - unlisted

A summary plan is included at annex 1.

8. Since 2013, Executive have considered a series of reports setting out proposals that facilitate the continuation of council and civic uses of the complex and establish a viable future use for the Guildhall complex as a business club / serviced office venue, with supporting commercial development on the riverside.

9. This work culminated in the decisions in July 2016 to proceed with detailed design and planning / listed building consent applications for the scheme, and to bring the detailed business case back to Executive, setting out the budget requirement for delivery, prior to construction works commencing. This work is set out below:

The Scheme

10. The proposals for the Guildhall complex have evolved through a rigorous design process beginning with a thorough analysis of the existing context. The client brief required an imaginative design response to facilitate the retention of council and civic use, whilst maximising the viability of the complex through the provision of complimentary commercial space. The design solution achieves significant improvement to the accessibility and legibility of the complex, with improved facilities and amenities serving both the Guildhall and the council chamber. The additional commercial space is sensitively integrated on the site.

11. The key elements of the scheme are :
 - The refurbished Guildhall and riverside meeting rooms
 - A cafe unit to the south range
 - Refurbished and new build office space
 - A new riverside restaurant unit
12. Plans and illustrations showing the scheme which was granted Planning and Listed building Consent on 16 February 2017 are attached at annex 2.
13. In response to comments made at planning committee it is proposed to make a further Listed Building Consent LBC application for the insertion of a second lift to improve DDA compliance in the cafe unit, ensuring that the complex is more accessible.
14. There are a number of conditions attached to the planning and LBC approvals and the project team will discharge these by working closely with colleagues in the planning service.
15. Sustainable development principles were integral to the design team's thinking and the scheme includes a River Water Source Heat Pump which will contribute to the heating load for the complex and also offers summer cooling potential for the office areas. The flood resilience of the complex will also be improved by upgrading physical defences and the installation of an integrated / automated pumping system to protect the basement areas.

Business Case

16. **Construction costs** - the current construction cost estimate of £10,708,000 is based on the design team's rigorous assessment of the scheme, which recently secured Planning and LBC approvals. There has been some design rationalisation and value engineering responding to the July Executive approval. The cost estimate does, however, reflect: the standards necessary for works to highly graded listed buildings; the complexity of the site; the restricted access and riverside context. The costs are inclusive of an inflation allowance (to the mid point of construction Q1 2018) based on the latest construction cost indices and a review of market intelligence. The costs also include a 15% risk and contingency allowance. This level is considered appropriate for

this project to ensure that: the known risks including; the structural condition of the complex, ground conditions and flooding during construction, can be managed, and that any unforeseen problems encountered during construction can be managed and addressed

17. **Project costs** – the total capital cost of the scheme is estimated at £12,780,000. In addition to the construction costs this includes: all project costs and design team fees from inception through to completion. Current costs, to March 2017, are running at £1.2m with further project management, design team, legal and construction enabling / access costs to follow. The project maintains a costed risk register.
18. A summary of the project costs is set out below:

Project costs	£,000
Project Management	£427
Enabling works / survey / Investigation	£447
Design Team – professional fees	£898
Construction Costs	£10,708
Furnishings	£300
Total Project Costs	£12,780

19. The scheme has been specifically designed to maximise the viability of the refurbished complex whilst ensuring the ongoing council and civic use of the council chamber, Guildhall and ancillary spaces. The project business case is set out at annex 3.
20. **The refurbished Guildhall** will offer unique events space, and in combination with a range of meeting rooms and break out spaces a highly desirable venue. The alterations to the Guildhall have been designed specifically to provide for Civic and ceremonial events with :-
- Increased licensed capacity up from 200 to 300+
 - A foyer / ancillary entrance and reception space
 - Improved toilet facilities,
 - Modern heating and lighting, AV, power and data services
 - A furniture store
 - Fully accessible internal cross circulation.

21. **A cafe / bar unit** – the proposed cafe with associated external space and roof terrace has been carefully conceived to provide service / facilities and amenities to the whole complex. It is located off Common Hall Yard as part of the ancillary entrance to the Guildhall to allow it to act as a focal point and to serve as a wide range of users as possible :
- Visitors to the Mansion House / city centre tourists
 - Visitors to the Guildhall, both as above and those attending for events / functions
 - Business club members / visitors and serviced office tenants
22. The cafe unit has a market rental valuation of £25,000 pa and the selection of suitable operator will be an important consideration in achieving successful operation of the venue.
23. **Office space** – 1300m² (14,000ft²) net lettable. The intention is that this will be offered on an all inclusive rental basis as; serviced office accommodation on flexible terms, in combination with a business club proposition that will offer individual desks in shared office space and with business lounges / work booths and virtual office services.
24. The business case for council operation of the facility is based on precedent studies and soft market research. To inform the operating proposals we undertook a soft market engagement exercise, based on our outline business case, seeking potential external service providers. We met with two national operators in the serviced office market who provided indicative business plans. Both suggested comparable income positions, but with significant management charges. A summary analysis is provided at annex 4.
25. **A new restaurant** shell of 500m², gross internal area, with additional south facing external riverside terrace areas is a key feature of the scheme and a vital commercial element. Working with to commercial agent's advice the design team have optimised the potential. The market expectation for this unique opportunity is for a 25 year lease where the operator is responsible for fit out and all repair and maintenance costs with an annual lease expectation of £180,000.

26. Following the July 2016 Executive approval an application was made for a grant to support the delivery of the project where the objective of creating high quality serviced office accommodation accords with the Strategic Economic Plan. The LCR LEP grant is specifically targeted at supporting business growth and job creation. A grant award of £2.347m is available, pending formal agreement. Re-payment provisions would apply only where our business case income projections are exceeded.
27. The Guildhall project development work has been funded from the existing, approved capital budget of £1.4m (cabinet July 2013). There is an additional existing capital budget of £350,000 to re-roof the Guildhall.
28. Since the council vacated the complex in March 2013 the annual running costs for the complex of £125,000 have been covered by the approved transition budget and this budget will continue to cover the interim costs until the development is completed in 2019.
29. A summary of the business case for the project is set out below:

Project Costs	Capital £,000	revenue per annum £,000
Total Project Costs	12,780	
Financed from :		
CYC agreed finance	1,750	
LCR LEP grant	2,347	
Prudential Borrowing required	8,683	
Annual cost of new borrowing		443**
Net income from scheme		
Managed Office/Cafe lease		264*
Restaurant lease		180
Total annual Income		444
Net income		1

** assumes borrowing at 3% over 30 years

*Costs include £50k sinking fund

30. To ensure that the development of the Guildhall complex can be successfully delivered, it is vital that the procurement of a construction contractor follows a rigorous process. The project team have undertaken significant work to understand the best 'route to market', with consultancy advice and market engagement. It is proposed that under an OJEU compliant process we will select a contractor for the project using a 2 stage process with a target cost contract mechanism. Following the initial competitive tender and selection process, further work is undertaken with the contractor at stage 2 to confirm the individual work package details, thereby ensuring greater certainty in delivery of the works to time, cost and quality targets.
31. If approval to deliver the scheme is confirmed and financing approved, it is anticipated that construction work would start by the end of the year with completion in early 2019. Therefore the complex will not be available for council / civic use from autumn 2017 until spring 2019. Working with Civic and Democratic Services alternative proposals will be considered by the working group established by the Management Plan.

Council and Civic Use of the Guildhall complex

32. The starting point for the design of proposals for the development of the Guildhall complex has always been to secure the provisions for Full Council meetings in the Council Chamber and ongoing Civic and ceremonial use of the Guildhall. The design proposals for Common Hall Yard also recognise the need for the space to serve both the Mansion House and the Guildhall, supporting the Lord Mayoralty and the important civic role of both buildings.
33. It is important that the detailed physical design of the space and the management of its future use are properly addressed. In accordance with the Planning conditions, a Draft Management Plan is set out at annex 5 covering :
 - Mansion House / Guildhall Yard – Access and use
 - Full Council meetings - the Council Chamber
 - Civic and ceremonial events - the Guildhall
34. It is proposed that a cross party working group is established working with Civic and Democratic Services to inform interim arrangements and agree the detail of the management plan in

accordance with the planning condition, and allowing for appropriate review ahead of completion and during operation.

Operation of the Guildhall complex

35. Following the July 2016 Executive decisions the project team undertook soft engagement with a number of commercial operators in the serviced office provider market. Two providers provided indicative business plans to confirm their interest in the Guildhall opportunity. A summary analysis of these as compared with the CYC outline business case presented to Executive in July is attached at annex 4.
36. Neither commercial operator would commit to a traditional property lease. An alternative management contract would leave the entire financial risk with the council. All operational costs and a set management fee would be paid before any 'profit' is realised and then a further management charge would be levied based on turnover. This model does not achieve the objective of transferring or sharing the financial risk of operation and would tie the council into costs, over which it would have limited control.
37. CYC operates a significant commercial estate with income of in excess of £4m. In addition to operating West Offices and providing managed office facilities for a range of partners, in 2015 the council took over the management of the Eco- Business Centre at Clifton Moor, following the expiration of the commercial operator contract. The centre was making a significant loss, but a year after the takeover the centre has been turned round and is making a modest profit. This indicates that the commercial property team have the capability to effectively manage and operate serviced office facilities.
38. In addition the effective integration of the operation of the Mansion House and the Guildhall complex can be better ensured if the council has control over the operation of both facilities.
39. It is therefore proposed that CYC operate the complex (excluding the restaurant) to ensure our ability to facilitate effective co-operation and cohabitation with the Mansion House and to ensure that CYC retain as much of the income as possible.

40. To maximise the benefits of the venue the procurement of a cafe operator will be important to serve the varied needs of the complex. It is not proposed that this is part of the 'in house' operation and a separate lease will be offered for competitive bids.

Consultation

41. There has been significant consultation on the scheme as it has been developed, through a series of public events, exhibitions, and with information available on line. The project team held a range of informal briefings and more formal meetings with city stakeholders and neighbours.
42. Public Consultation / engagement and exhibition of the proposals was undertaken at key stages; initially over the Residents Festival weekend in January 2016 with over 400 people attending over 2 days and discussing the outline proposals with the Design Team. Residents' feedback provided a clear steer to inform the design development. The designs were further discussed with a range of city stakeholders / neighbours and amenity societies as they were developed and refined – see list at annex 6. The plans were also exhibited at the Guildhall in June / July / Aug 16 in conjunction with tours of the Mansion House works. The plans and proposals were publicised by email to previous participants and made available on line with the opportunity for comments in conjunction with and in follow up to the Executive report in July 2016. Finally there was a formal exhibition of the Planning and LBC application information as submitted in September 2016 as part of the planning process, and a presentation for Members ahead of October's Full Council.
43. As the construction phase commences there will be further and ongoing engagement with key stakeholder groups and the public. Events and exhibitions will be organised as the project progresses to ensure effective engagement with all aspects of the development.

Council Plan

44. The Guildhall project will deliver outcomes which contribute directly to the following objectives in the Council Plan 2015-19.

A prosperous city for all

- Local businesses can thrive
- Residents have the opportunity to get good quality and well paid jobs
- Environmental sustainability underpins everything we do.
- 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
- Be entrepreneurial, making the most of commercial opportunities

Implications

45. **Financial** - The project business case sets out the prudential borrowing requirement necessary to deliver the scheme. The business case also demonstrates that the project (with the benefit of the LCR LEP grant) covers the borrowing costs from projected future income and provides a small annual surplus. This is a significant reduction in cost when compared to the business case considered in July 2016 which required a council subsidy.
46. The main reason for the improved position is the grant made available from the LCR LEP which has reduced the level of borrowing required to deliver the scheme. There is a condition, that if the project generates a greater surplus than the business plan projection, this will be shared with LCR up to the value of the overall loan.
47. The development will also provide an increase in business rates to the city of circa £45k per annum. Under the current business rates regime 25% of this value will come through to the council, but this could increase under new business rate arrangements.

Use of Venture Fund

48. The business plan also shows anticipated deficits in the early years before full occupancy. It is proposed that these deficits are funded from the Venture Fund allocation set aside for the Administrative Accommodation project in 2010 that has not been drawn down.

49. In July 2010 a sum of £2.127m was approved to fund transitional costs arising from moving out of the authority's accommodation. Of this sum £1.050m has been drawn down leaving a balance of £1.077m available.
50. The value drawn down is currently being repaid at £150k per annum from the savings arising from the Administrative Accommodation project and is planned to be repaid by 2020/21.
51. The business plan shows a further drawdown from the Venture Fund of c £125k per annum in the years prior to completing the development and a maximum cumulative deficit of £568k at three years after opening. This would mean a maximum drawdown of £0.943m from the Venture Fund, which, if fully utilised, would result in a further 7 years of repayments. The Venture Fund would be fully repaid by 2024/25.
52. The forecast level of the Venture Fund as at 31 March 2017, as reported to council, is £2.6m. There are forecast commitments of £1.3m for the Community Stadium in supporting the 2018/19 budget. There are also repayments into the fund due over the coming years.
53. **Human Resources (HR)** - The Guildhall was previously managed by the Civic services and Mansion House team. The roles of these staff now relate only to the Mansion House in accordance with the approvals for the HLF funded Opening Doors project. The future management of the Guildhall complex requires a dedicated team and supporting external services such as FM and security. Close liaison with the Mansion House team and Civic and Democratic staff will be a key requirement. The operating costs in the business case assume that CYC recruits to permanent new posts. CYC recruitment policies will be followed.
54. **Equalities** - The scheme will directly address many of the issues of poor accessibility suffered at the Guildhall and access to the complex and the specifically the council chamber including the public gallery will be improved by the development in line with the requirements of the Equalities Act.
55. **Legal** - The procurement process to select the construction contractor will be undertaken in compliance with all provisions of EU procurement law and the public contract regulations.

56. The appointment of the Design Team for the detail design and construction phase work is on a staged basis with break clauses at each stage.
57. Legal advice will be sought to confirm the most appropriate and arrangements for the cafe contract / lease agreement.
58. **Crime and Disorder** - The design of the complex raised no objection from the Police Architectural Liaison officer – however, a site security and management plan will be needed to co-ordinate all uses / users across the site. This will be developed holistically in conjunction with proposals for access control / CCTV and site FM.
59. **Community Planning & Partnerships** - The project delivery phase will involve further and ongoing consultation and engagement with both the public and key city stakeholders and site neighbours.
60. **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.
61. **Property** - It is proposed to offer a long lease (25 years) for the restaurant demise, following a competitive marketing process. The council will retain the freehold to the entire site.
62. The contract / lease arrangements for the cafe will ensure that the council retains full control of the site.
63. **Risk Management** - one of the key project risks is the ongoing deterioration of the complex where much of the space is vacant or under-used. Although interim repair works have addressed immediate problems there is a significant outstanding repair and maintenance backlog. The proposed development will address these and the identified structural problems through a comprehensive refurbishment of the entire complex providing a viable and sustainable future for the complex.
64. Securing appropriate consents from adjoining owners / neighbours is critical to the successful delivery of the project and will require individual agreements to be reached. Although contact has already been made with all relevant parties and initial discussions

have been positive, this still represents a risk to delivery.

65. A project risk register is maintained for the project and will be updated to reflect the revised risks of moving into the delivery and construction phase.

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Background Papers:

Executive reports –
29 Oct 2015 - The Future of York's Guildhall & Riverside
14 July 2016 - The Guildhall – Detailed Designs & Business Case

Annexes

Annex 1 – Guildhall Site Plan
Annex 2 – PLANNING PACK Scheme Detail Plans (available online)
Annex 3 – Project Business Case
Annex 4 – Serviced Office Income Projections & Summary Comparison.
Annex 5 – Draft Mansion House, Guildhall & Common Hall Yard
Management Plan
Annex 6 – Summary of Consultation / Engagement Events

Confidential annexes

Annex 7a – Restaurant valuation report - June 2016 - Cushman
Wakefield.
Annex 7b - Restaurant valuation update letter dated 1 March 2017 -
Cushman Wakefield.