

Executive

14 July 2016

Report of the Assistant Director Finance Property & Procurement

Portfolio of the Executive Member for Finance and Performance

The Guildhall – Detailed Designs & Business Case

Summary

1. The purpose of this report is to present the latest designs and business case for the development of the Guildhall complex, highlighting the potential for a world class venue for business, alongside retained council use in one of York's most significant historic buildings. Executive are recommended to proceed with; detailed design and planning / listed building consent applications for the scheme, to create a business club / serviced office venue, with supporting commercial development on the riverside.

Recommendations

2. Executive is asked to:
 - Note the business case and cost estimates for the scheme indicating a capital budget requirement of £10.19m to be prudentially borrowed, and a potential increase to the net revenue budget of £180k.
 - Agree that the detailed business case be presented to Executive in February, setting out the actual budget requirement for delivery. Executive and Full Council will be asked to take a final decision and make the relevant budgetary provision, following further work to confirm the budget requirement.
 - Agree to marketing the restaurant unit and securing a pre-let agreement for a 25 year commercial lease.
 - Commence the procurement of a service contract for the operation of the business club, office venue and cafe.

- Agree the submission of Planning and Listed Building Consent applications
- Proceed with RIBA stage 4 detail design (construction information / specification) including for value engineering to potentially reduce project costs
- Continue to explore the opportunities for securing Local Growth Fund monies with both the regional LEP teams
- Commence the procurement of a construction contractor through an EU compliant process.
- Draw down a further £350k from the capital budget already allocated to the project to fund the planning application and the RIBA stage 4 design work.

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.

Background

3. As part of the Admin Accommodation programme in January 2012 Cabinet decided to move out of the Guildhall and move into West Offices in order to make approx £1m a year savings. In response to this an evaluation of potential future uses was undertaken, culminating in the decision in October 2015, to commission design and business case development work to bring back a viable scheme that would stimulate the economy and provide a viable future for the historic building.
4. Approval was granted for detailed project development work as follows :
 - To secure the future of the Guildhall as a serviced office venue with virtual office and business club facilities by maximising the benefits of the different spaces within the complex; its heritage appeal, and also ensuring ongoing council use and public access in a mixed use development.
 - Confirm the appointment of a multi disciplinary design team lead by Architects Burrell Foley Fischer
 - Confirm the selection of a commercial operating partner through the most appropriate and advantageous lease or service contract arrangements
 - Confirm a programme of engagement with the business sector / target market to understand their requirements, facilitated through joint working with project partners; the Universities and Make it York.

5. In response to this approval the following actions have been taken:

- The design team led by architects Burrell Foley Fischer were appointed in November 2015 and commenced work immediately.
- Over the period Nov – Dec 2015 they undertook a thorough review of the previous work and prepared; a feasibility review report and a strategic brief of requirements to inform project development.
- The design team also undertook a complete fabric and structural condition survey of the entire complex, which highlighted a number of areas of concern and identified the need for additional ground and structural investigations.
- To ensure that the heritage significance of the site was fully recognised we committed to early engagement with Historic England through their enhanced advisory service, and also to them undertaking an enhanced listing for the complex.
- Commercial agents Cushman Wakefield (formerly DTZ) were appointed (following a formal procurement) to advise on the river side leisure units. Their initial advice was invaluable in informing the stage 2 design. They have subsequently undertaken significant soft market engagement / testing and provided a robust valuation of the restaurant unit to support the project funding proposals attached at annex 2ii.
- Over the period January – March 16 the design team undertook RIBA stage 2, concept design work, arriving at a preferred option (see stage 2 plans in background papers). Following gateway review, in accordance with the project programme this led directly into the RIBA stage 3, detail design work.

The Revised Scheme Design

6. At the meeting of the Executive the project team will present a 3D fly through of the stage 3 design. The executive summary of the RIBA stage 3 report and scheme presentation information and drawings are attached at Annex 1.

7. The report presents a design solution which :

- Secures the future of the complex through a comprehensive scheme of repair / refurbishment and restoration to the most important and sensitive areas of the site
- Enhances the Guildhall itself including; a new roof, under floor heating and new services

- Refurbishes and reconfigures the south range to provide : a cafe, toilets and storage to serve the Guildhall, with a glazed link courtyard space serving as a an entrance / foyer to the Guildhall and business club
 - Creates a new public / member entrance and refurbishes the council chamber including repairs to the river facade and windows
 - Creates a serviced office and business club venue with 1330m2 of premium office space
 - Installs new services throughout; a complete replacement of all heating / electrical / fire and security alarms and access control systems. The proposed heating system will use a river water sourced heat pump taking advantage of the location to secure a sustainable solution with low running costs
 - Constructs a new build element to the north annex to provide: an attractive restaurant space, a new riverside terrace / courtyard and additional office accommodation, with the new vertical circulation and highly serviced areas (kitchens / toilets) away from the more sensitive historic elements.
 - Provides a lift for accessing the public gallery of the council chamber
 - Creates new public / visitor routes thourgh the complex giving access to new riverside spaces
8. The project team have undertaken significant precedent analysis, looking at a range of serviced office and business club facilities in both London and Leeds, undertaking site visits with the design team. Other locations have been compared through web searches / data comparison. The key findings were tabulated by the Design Team and fed into the design process to support the proposed approach for the Guildhall,
9. The stage 3 design proposals have made the refurbished Guildhall integral to the business club entrance and provides a cafe unit capable of serving; business users, the Guildhall space and taking advantage of Mansion House visitors, being located directly off the Guildhall yard in the south range buildings.

Commercial Space

10. The early designs identified two commercial elements to the scheme that would help to fund the proposal, a cafe in the north annex extension and a restaurant in the south range. Both design team thinking and advice from our commercial agent informed the design development at RIBA stage 2. The design team proposed that moving the restaurant unit from the south range to the north west side of the complex allowed for a larger unit with far fewer constructional constraints and better access to external areas on the riverside. Advice from our commercial agent also advised a market requirement for a

slightly larger (5000 – 6000ft²) unit, access to external seating areas, and requirements for storage and plant space also considered.

11. The cafe unit is a better fit with the smaller scale of the south range and its location there allows it to serve the multiple areas and audiences highlighted at para 9 above.

Public Access

12. Feed back from the Residents Festival, over the weekend 30/31 Jan 2016, indicated the extent to which members of the public feel 'ownership' of the Guildhall complex and the extent to which many felt they could not gain access to some of the areas of key interest. There was specific support for proposals to make the riverside more accessible. Accordingly the design proposes terraced riverside space following the City Screen precedent model, private space with public access.

Condition of the Guildhall Complex

13. The existing condition of the Guildhall complex is much worse than previously understood, the detailed surveys have revealed structural problems which if left unchecked could lead to permanent and irrevocable damage to the Grade I and Grade II* elements of the complex.
14. Historic England have advised that the complex could soon be considered at risk were no future use to be identified. The 2013 condition survey identified £2m of necessary works(exclusive of fees) to bring the complex up to a satisfactory standard – of which £1m were priority urgent works. With fees and inflation , and taking into account additional underpinning to the tower, this equates to approx £2.67m of works necessary to sustain the complex without any significant or specific alterations or improvements to facilitate new uses.

Quality requirements

15. The Design team have worked hard and with imagination to deliver a design that meets a complex range of requirements and satisfies all stakeholders. Whilst opportunities for value engineering do exist, a complex of this nature, with such highly graded heritage assets, requires a treatment commensurate with its significance. The specification for the works includes for a material quality appropriate to the location and setting which is one of the most visible in York.

Freehold retention

16. Both Executive and Scrutiny have previously outlined the importance of the long term custodianship of the Guildhall by the Council. This requires retention of the freehold, and brings with it the external repairing liabilities of the complex; however, these could be met from a repairs fund built up from the income from leasing the commercial space.
17. It is proposed that the Commercial restaurant space will be let on a 25 year lease, and that the operation of the business club and serviced office space would potentially be a shorter 10–15 year lease. The leases will transfer elements of the maintenance and repairs liability to the leaseholders. The proposed lease terms will seek to achieve the best compromise between maximising income generation thorough de-risking the offer, and facilitating the transfer of running and maintaining responsibilities for the complex to the private sector, whilst securing the required council use.

The Business Case

18. The business case is formed from the following elements:
- **The cost of the works to the Guildhall** – this will be funded from borrowing and repaid from :
 - **Income generated by the scheme**, which comprises :
 - i. Income from the operation of the serviced office / business club venue and cafe
 - ii. Income from the commercial restaurant lease
 - iii. The current operating budget for the Guildhall
 - iv. Capital Funds already set aside for the project

Scheme Costs

19. In previous presentations to Executive the project costs ranged from £12.5m (an option for more new build) to £9.85m (this option involved less new build and more refurbishment). Most recently in October 2015 Executive approved further development based on the latter option which proposed retaining more of the north annex and involving more refurbishment works. However, as the RIBA stage 2 and 3 detail designs have been developed, and as further structural surveys and ground investigations have been undertaken, the structural issues identified across the complex mean that the option for refurbishment is not technically viable.

20. To resolve the structural issues affecting the north annex and the tower, the most pragmatic and permanent solution is to demolish part of the north annex and create a new build element which will both stabilise the tower and provide the most efficient design solution to vertical circulation (lift) and the highly serviced (kitchen / toilet) areas of the new complex. The need for sensitive treatment of the south range has led to a design which requires a combined approach of refurbishment and new build with elements of rebuilding and underpinning. Both of these requirements add to the cost of the scheme.
21. The RIBA stage 3 build cost estimate for the scheme outlined in this report totals £11.938m. The key factors which have impacted on the cost during the design stage are :
- More new build, less refurbishment - It has proved pragmatic to replace much of the north annex in order to provide both an effective structural solution and the new highly serviced core for toilets / kitchens and lift serving all levels of the development. The stage 3 proposals have significantly more new build compared with the previous refurbishment proposals.
 - Structural condition / ground conditions - The structural survey identified evidence of significant movement at several locations across the complex. Additional ground investigations and proposed structural monitoring will provide further detailed information to inform the necessary remedial works, the riverside tower is a particular concern.
 - Additional Floor area - In order to accommodate a larger restaurant unit, with attractive and accessible riverside external spaces and to maximise the lettable office space the gross building area has increased by approximately 80m²
 - Build Cost Inflation - When the initial cost estimates were provided annual build cost inflation had been running at 2 - 2.5%. However in 2015 the improving economic outlook saw upward revisions and significant market movement. Annual build cost inflation is now reported / predicted at 4 - 4.5% which will have a significant impact on the eventual costs and will continue to be a risk factor for the project. Any delays to the construction phases will exacerbate this inflationary trend.

Managed Office Business Club Operation

22. The project team have considered the most appropriate options for the operation of the business club and serviced office venue, with respect to managing risk and maximising income, balanced against the requirement for ongoing council use and public access. The council's use of the complex for

full council meetings / civic events / functions and, including office accommodation for Mansion House / Civic and Democratic Staff, with public access to the complex for Residents Festival and Heritage Open Days weekends in January / September respectively, clearly has a cost. The cost will of this provision is estimated at £35k per annum.

23. Whilst a traditional property lease does offer the potential to transfer risk to the private sector, there would necessarily be limited control over the use and operation of the complex, and securing the council use would be seen as a restriction impacting on the lease value. Council operation was also considered as an option, but this would require additional staffing resource at this time.
24. Procuring a service contract for the operation of the venue is therefore seen as the most appropriate mechanism for securing a vibrant mixed use business focused venue. An operating company would manage the venue and business tenancies in return for a share of the rental income. The project team will work to secure this alongside the planning and detail design stages.
25. In the current designs, the cafe is now integral to the Guildhall and the office space. It therefore makes sense to wrap the cafe unit in with the office management arrangements, rather than marketing an independent lease opportunity, but this will be kept under review through the next stage.
26. The market value of these elements has been assessed by Cushman Wakefield and their commercial valuation report is attached at annex 2i. The project team have also modelled the income potential for a business club venue based on the precedent studies and market intelligence analysis.

Commercial Leisure Unit

27. Commercial advisors (Cushman Wakefield – formerly DTZ) were commissioned to assess the commercial potential of the riverside restaurant unit and cafe space within the scheme. Their advice has been used both inform the developing design and to construct the business model. They concluded that both spaces would be highly attractive to the market, and early market engagement indicates that there is currently significant interest in the restaurant unit, due to its unique location. The cafe space has been integrated with the office lease, as identified above. The proposed restaurant lease would be a 25 year lease with a separate demise to the rest of the complex.
28. The full report is attached at annex 2ii. The current estimate of income from this lease is £200k pa. In order to firm this up Members are asked to agree to marketing the lease, to secure a pre-let agreement and to enable a restaurant

operator to be engaged with the next stages of design and ultimately construction of this element.

Existing Budgets

29. Members have already committed £1.75m to fund the project. When the complex is operational CYC will benefit from an additional £25k pa in retained business rates, in addition to the lease income. The requirement for retained use of the Guildhall for full council meetings (use of the chamber and adjacent meeting rooms) use of the Guildhall main hall for up to 12 civic events per annum, and all inclusive office space for the Mansion House / Civic and Democratic Staff also has a cost / value.
30. The current cost of running the Guildhall is £125k per annum. This covers business rates, utilities and services, but excludes staffing costs. It is proposed that all of these sums are used to fund the project costs.
31. The table below outlines the costs and income from the proposed scheme :

Costs	Capital £,000	revenue per annum £,000
Project Costs (stage 3 cost est.)	11,938	
Financed from :		
CYC agreed finance	1,750	
Add. Borrowing required	10,188	780
Annual cost of new borrowing		780
Net income from scheme		revenue per annum £,000
Managed Office/Cafe lease		250
Restaurant lease		200
Retained NNDR		25
Total annual Income		475
Net revenue impact		305
Less Existing Budget		125
Net Increase in Revenue Costs		180

32. In addition to the direct income from the scheme the York economy would benefit from an estimated uplift in GVA of £66m by 2030 from the creation of 120 high value new jobs.

** source North Yorks Regional Econometric Model - based on job in the computing / information and communication services sectors.

The Do Nothing Option

33. There are financial implications of continuing to operate the Guildhall without redevelopment. In addition to the annual operating costs there is a residual repairs and maintenance backlog which will need to be addressed. The condition survey undertaken in 2013 identified £2m of repairs (excluding fees) which included £1m of priority works. The more detailed structural surveys undertaken during the design phase have identified the requirement for further structural works to underpin elements of the complex (specifically the tower) which will need to be undertaken to prevent irrevocable damage to the fabric of the historic building. This urgent repair work is now estimated at £2.67m.

34. The costs of the Do Nothing Option are set out in the table below :

Costs	Capital £,000	revenue per annum £,000
Project costs to date	760	
Repairs and maintenance est.	2,670	
Total option costs	3,430	
Financed from :		
CYC agreed finance	1,750	
Add. borrowing required	1,680	129
Ongoing operational costs		125
Total cost per annum		254
Existing budget		125
Net Increase in revenue Costs		129

35. The ongoing net costs of redevelopment are £180k pa compared with with the £129k pa costs of the Do Nothing Option. However the redevelopment would also secure the fabric of the building for the long term, reconfigure the complex for new uses, increase the capital value of the asset and contribute to local economic growth. It is therefore recommended that Members agree to proceed with the project and agree the following detailed activity :

- Note the business case and cost estimates for the scheme indicating a capital budget requirement of £10.19m to be prudentially borrowed, and a potential increase to the net revenue budget of £180k.
- Agree that the detailed business case be presented to Executive in February, setting out the actual budget requirement for delivery.

Executive and Full Council will be asked to take a final decision and make the relevant budgetary provision, following further work to confirm a budget requirement.

- Agree to marketing the restaurant unit and securing a pre-let agreement for a 25 year commercial lease.
- Commence the procurement of a service contract for the operation of the business club and office venue.
- Agree the submission of Planning and Listed Building Consent applications.
- Proceed with RIBA stage 4 detail design (construction information / specification) including value engineering to potentially reduce project costs
- Continue to explore the opportunities for securing Local Growth Fund monies with both the regional LEP teams
- Commence the procurement of a construction contractor through an EU compliant process.
- Draw down a further £350k from the capital budget already allocated to the project to fund the planning application and the RIBA stage 4 design work.

Timetable

36. The forward project programme is as follows :

- | | |
|---|-----------------|
| • Planning and Listed Building Consent applications | Aug 2016 |
| • RIBA design stage 4 inception workshops | Sept 2016 |
| • Marketing of Restauarant unit | Aug – Oct 2016 |
| • Planning and Listed Building Consent approvals | Nov 2016 |
| • Agreement to lease restaurant | Dec 2016 |
| • RIBA stage 4 designers reports and cost plan | Jan 2017 |
| • Executive report | Feb 2017 |
| • Full Council budget report | Feb 2017 |
| • Construction contract procurement PQQ | Oct 16-Jan 2017 |
| • Construction contract procurement ITT | Feb – Apr 2017 |
| • Possible enabling works | Mar – Apr 2017 |
| • Potential start of construction works | July - 2017 |
| • Construction period 15 months to | Oct 2018 |

Consultation

37. Corporate Scrutiny Management Committee have considered the project in January 2015, in September 2015 and more recently in June 2016 where the latest proposals were well received. Their response was generally supportive of the proposed scheme.
38. As part of the 2016 Residents Festival over the weekend of 30 & 31 January an exhibition was held in the Guildhall and tours of the complex were offered for residents, working in conjunction with community group York Past and Present. This proved to be extremely popular with approx 200 people taking tours and over 400 people visiting and viewing the exhibition. The feedback was overwhelmingly positive.
39. We have also worked with Historic England, taking advantage of their Enhanced Advisory Services to undertake pre-application engagement and to secure an Enhanced Listing for the complex. Most recent advice from Historic England indicates: *Historic England is broadly comfortable with the scheme and we welcome the direction in which it is going.*
40. 'Enhanced List Entries' are part of a new service responding to the regulatory Reform Act of 2015, designed to streamline the Heritage consent process. Historic England undertook a re-listing exercise for the Guildhall complex which gives much greater clarity as a basis for assessing proposed changes. In summary this has confirmed that the complex is highly significant with its links to City governance over several centuries. The Guildhall and riverside rooms are listed at Grade 1. The Council office and riverside block of the annex are now listed at Grade II* (previously grade II).
41. The significant changes are :
- The Mansion House Garages are no longer part of the Mansion House listing
 - The Victorian council offices are now listed at Grade II* - including the riverside block of the north annex
 - The remainder of the North Annex is no longer listed
 - The south range is now separately listed at grade II
42. There is helpful detail in the new list descriptions confirming that the interiors of the former committee rooms 2 and 3 are not of special interest, nor the interiors of the north annex riverside block and south range. This provides

clarity and allows greater scope for appropriate alteration in these areas. The report accompanying / recommending the enhanced list descriptions is attached at annex 3.

43. This process has also involved the council's planning and conservation teams. Early engagement has been invaluable, ensuring that the plans have been developed in response to their early comments, although there are necessarily some areas of detail still to resolve.
44. In addition, contact has been made with a number of adjoining owners to make them aware of our emerging proposals including; the Post Office / York Conservation Trust in relation to the access to the north west side of the site. We have also communicated the proposals to City Screen, Jamie Olivers and Lendal Cellars and engaged with the Civic Trust and Conservation Areas Advisory Panel.
45. The next stage of consultation will be formal pre-application exhibition of the proposals at the Guildhall.

Council Plan

46. 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

Financial - The business case set out at para 33 above includes the capital costs and projected revenue costs / income for the do nothing and recommended option.

The total capital cost of the preferred option is £11.938m with £1.75m of approved project funding in place. The project is therefore likely to require prudential borrowing of around £10.19m with repayment of this borrowing over a 30 year term (including interest).

The next stage of project development requires a further drawdown of £350k from the previously approved budget allocation totalling £1.75m (£900k is already committed leaving a balance of £850k)

At detailed business case stage the potential to fund the proposed development, through council borrowing against the projected rental income, will be established and reported to Executive and Full Council for approval in February 2017.

Human Resources (HR) - The Guildhall is currently managed by the Civic and Mansion House team. The roles of these staff in relation to the Guildhall are being revised as part of the ongoing delivery phase of the Mansion House project, 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 refurbishment of the Guildhall complex has accessibility 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 followed EU procurement regulations. The appointment is on a staged basis with break clauses at each stage. The procurement of the construction contract would also follow EU procurement regulations.

Legal and procurement advice recommended a lease as the most appropriate and advantageous arrangements for securing a private sector operator for 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 has already involved consultation and engagement with both the public and key city stakeholders. The next stage will be a pre-application exhibition of the design proposals and the Guildhall Planning panel will also be consulted

Information Technology – It is intended that IT services for the serviced offices and business club are provided by the private sector operator.

Property - the proposal for a long lease (25 years) for the restaurant unit is confirmed, and a shorter (15 year) lease is proposed to enable a private sector operator to run the Guildhall business club and serviced office venue / cafe providing comprehensive FM services.

Risk Management

- 47. The key project risks are:
- 48. Capital cost – this will be kept under constant review by the project team working with the design team through RIBA stage 4 – which will involve value engineering and construction risk workshops.
- 49. Lease income – the project financing requires income to fund the repayment of borrowing costs. Securing agreements to lease for the restaurant unit and office elements will be necessary before seeking approval to proceed.
- 50. Further deterioration of the complex - much of the space is currently vacant or under-used. Interim repair works in 2015 addressed the immediate problems of water ingress, but a significant outstanding repair and maintenance backlog remains and there are also areas of structural movement – as highlighted in the report.
- 51. 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

Author:

David Warburton
Guildhall Project Manager
No 551312

Chief Officer Responsible for the report:

Ian Floyd
Director Customer and Business Support

Tracey Carter - Assistant Director for Finance, Property and Procurement *Tel No. 553419*



4 July 2016

Wards Affected: Guildhall

All

For further information please contact the author of the report

Background Papers:

RIBA Stage 2 report
Full RIBA stage 3 reports

Annexes

Annex 1

- a) - RIBA Stage 3 Design report - Executive Summary
- b) – Scheme description- Burrell Foley Fischer – **online only**
- c) – Proposed layout plans- Burrell Foley Fischer

Annex 2

- i) Market Valuation Guildhall / Offices and Cafe – Cushman Wakefield
- ii) Restaurant valuation report - Cushman Wakefield (**Confidential Annex**)
- iii) Business Club indicative operating model

Annex 3 – Enhanced list descriptions report – **online only**

Glossary

EU – European Union

FM – Facilities Management

GVA – Gross Value Added

LEP – Local Enterprise Partnership

NNDR – Non Domestic Rates

PQQ – Pre Qualification Questionnaire

RIBA - Royal Institute of British Architects