Executive **14 February 2019**

Report of the Director of Economy and Place

Portfolios of the Executive Leader (incorporating Finance and Performance) and the Executive Member for Economic Development & Community Engagement

The Guildhall Redevelopment Tender Evaluation & Project Business Plan Appraisal

Summary

1. The Guildhall is one of the city's most prestigious and historically significant assets and was for many years the centre of the council's democratic, civic and managerial activity in the city. When the council consolidated its office provision into West Offices in 2013, the council initiated a review of the future of the Guildhall, with a clear commitment to giving the building a new and sustainable lease of life for the benefit of the city and its residents.

2. The Guildhall has suffered from decades of underinvestment. The last significant investment was to repair the Guildhall following the World War II bombing in 1942, during the Baedeker raids. The restoration was completed in 1960 but, without further investment, a backlog of major repairs and maintenance issues have accrued. Detailed investigations have also revealed further underlying structural defects which, if not addressed, will eventually lead to the disintegration of parts of the Guildhall. This process of decline needs immediate attention to protect such an important heritage building.

3. This report sets out the conclusion of the complex process of review, assessment, analysis, specification, design, costing and procurement, in order to give the Guildhall a secure future and deliver 250 additional jobs with a GVA (Gross Value Added - economic growth impact) of £117m over

5 years. The restoration will bring the historic Guildhall back into active commercial and civic use and open it up to the public.

4. The report outlines a comprehensive scheme to refurbish and redevelop the Guildhall complex and generate income of c£848k per annum. The scheme will secure its long-term future as office and business space with democratic, civic and community space, supported by a cafe, new public riverside space and a riverside restaurant. The proposals include significant structural works to address the stability of the North Annex tower, replacement roofs for the Guildhall and the council chamber and complete renewal of services. The installation of a River Water Source Heat pump will bring significant environmental benefits and reduced running costs. The new and refurbished accommodation will offer new opportunities to support local businesses and increase public access to this historic building.

5. The commercial focus of the scheme will reflect the original use of the Guildhall, supporting local business growth and entrepreneurs. The report sets out proposals for a Guildhall offering:

- Essential works to address the structural failures to the north tower to avoid collapse and replacement of roofs, all to strict conservation standards.
- High quality office and business space to support our economy.
- Bringing the medieval Guildhall space into more active public use with significantly improved facilities and amenities, including under floor heating, improved access / circulation, adjacent foyer space, cloaks / toilets provision and a cafe/bar, with an increase to its licensed capacity.
- Publicly accessible riverside space
- A high quality riverside restaurant
- Ongoing use for democratic and civic events

6. The paper sets out a comprehensive update of the business case for the scheme in the context of consideration of alternative options and also sets out the results of the recently completed procurement of a construction company to undertake the extensive restoration and construction works to the Guildhall.

Recommendations

7. Executive are asked:

i. To note the additional construction costs necessary to address the structural instability of the Guildhall and to access the riverside site as set out in para 21.

ii. To note the additional costs arising due to inflation and contingency as set out in Para 21.

iii. To note the 250 additional jobs with a GVA (Gross Value Added - economic growth impact) of £117m over 5 years.

iv. To agree to the redevelopment of the Guildhall at an additional cost of £7.372m funded from prudential borrowing identified in the 2019/20 capital budget report.

v. To agree the updated business case for the scheme

vi. To agree to proceed to the award of a contract to Bidder B as the construction contractor for the Guildhall project and delegate to the Director of Economy and Place (in consultation with the Assistant Director of Legal and Governance or his delegated officers) take such steps as are necessary to enter into the contract and, subject to contract, to commence the construction works.

vii. To agree to the seeking of tenants for the commercial space to maximise income to the Council and to delegate to the Director of Economy and Place in consultation with the Executive Member for Finance and Performance to agree the length of the lease(s).

Reason:-to ensure the future viability and effective re-use of the Guildhall as one of the City's most significant historic buildings.

Background

8. The council vacated the Guildhall complex as part of the consolidation of administrative accommodation when they moved to West Offices in March 2013. The complex has been largely vacant and underused over the interim period at a cost of £125k pa.

9. A condition survey undertaken in August 2013 highlighted the poor condition of the whole of the Guildhall with a backlog of repair and maintenance items, poor accessibility and life expired services. Timely remedial action was taken in 2014 to repair roofs / gutters and this prevented further unnecessary damage to the complex as a result of water ingress.

10. The cost estimate for undertaking the necessary repairs, service renewals and minimum access improvements was estimated at c£2m (at 2013 prices) exclusive of project design, management and contract fees. This figure did not include re-configuration of the accommodation, or enhanced services and facilities. It did not address the structural failures that became clear from the subsequent intrusive survey work which revealed the full extent of the structural problems with the north annex tower.

11. Sophisticated movement monitoring equipment was installed to monitor the active movement this has confirmed that there is progressive movement of the rear of the tower which is gradually leaning away from the river, creating significant cracking to the northern facade of the tower. This crack is active and requires significant underpinning to stabilise it. The condition of the Council Chamber roof is also such that complete re-roofing is now needed as part of a comprehensive scheme. Images of the structural damage and water ingress are attached at Annex 2.

12. The Guildhall 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.

13. In 2012 the council decided to vacate the Guildhall as part of the Admin Accommodation programme. Since that time, successive reports have set out proposals for the future of the Guildhall. In July 2013 the Cabinet commissioned a feasibility study for a Digital Media Arts Centre. This was reported back to Cabinet in Dec 2014 with an indicative cost of £9.23m. This scheme included refurbishment of the north annex (rather than new build) and was not fully funded at that time. Officers were instructed to

undertake further work to explore potential income sources and opportunities for grant funding.

14. Two applications to secure grant funding from the Heritage Lottery Fund were declined. Those bids were partly to contribute to the renovation works but also included additional works to Common Hall Lane and the digital interpretation of the Guildhall.

15. Further business case development was subject to a Scrutiny review which resulted in a report back to Executive in October 2015, agreeing the scope of the future scheme to include :-

- The refurbished Guildhall and riverside meeting rooms
- A cafe unit to the south range
- Office and Business space
- A new riverside restaurant unit
- New services

16. In July 2016, Executive agreed the detail of the scheme (set out in Annex 3) and the high level business case. The scheme was granted Planning and Listed Building Consent in Feb 2017 and in March 2017 Executive agreed a budget of £12.78m based on the RIBA Stage 3 design. This scheme included a new build north annex as it had proved impossible to add an additional floor to the existing structure At that point the council secured LCR LEP Local Growth Fund grant funding of £2.347m, specifically targeted at supporting business growth and job creation.

The Procurement

17. To reflect the complexity of the development of a heritage listed building in poor condition with new build elements on an extremely constrained riverside site, a two stage procurement process was undertaken for the appointment of a construction contractor. The first stage (early contractor involvement or ECI) was undertaken seeking to work with a contractor to progress the design specifications into detailed work packages that could be properly costed to provide accuracy in the final bids. This work was undertaken in early 2018 and enabled the development of detailed bills of quantities.

18. It also crystallised some of the very real cost issues with the site, namely the cost of addressing major structural issues and the cost of accessing and constructing on such a constrained city centre and river side site. The need for large volumes of structural concrete to underpin the tower made this logistical challenge even more complicated.

19. The increased remedial works and inherent logistical complexity made it impossible to evaluate whether the costed proposal through the ECI process represented value for money. In May 2018 Executive were advised that the final construction costs for the complex were likely to be in the region of £15m. This included all the new build elements and the detailed costs of stabilising the structure, satisfying the listed building consent and the extensive costs of river side logistics to service the constrained site. Executive agreed to take the detailed specification back out to competitive tender, whilst accepting some proposals to omit some less essential but costly elements of the design. (Roof-top terraces).

20. Extensive specification of work packages was subsequently undertaken and the Council sought external commercial advice to produce a pre tender estimate to help ensure an effective and robust procurement process and evaluation.

21. The additional works which have been added to the scope to reflect planning and listed building consent conditions and to address structural defects that emerged from further detailed investigation works are set out in the table below, alongside other factors that have resulted in the increase in cost from March 2017.

Cost element	£	notes
Re-roofing works	£0.35m	Defects
Underpinning and structural stabilisation	£0.88m	Structural defects identified by intrusive surveys
River Water Source Heat Pump	£0.45m	Higher capital cost drives lower running costs, lower carbon emissions and allows comfort cooling to south facing rooms inc council chamber
New Electricity supply	£0.12m	
River access logistics	£1.5m	Exacerbated by need for underpinning
Total	£3.3m	
Enabling/survey work	£0.4m	
Construction cost Inflation since 2017	£1.2m	
Contingency	£1.3m	
Professional Fees on larger, longer project	£1m	
Project Management on longer project	£0.2m	
TOTAL Increase	£7.4m	

22. The incorporation of these additional works leads to an overall construction budget of £16.5m including contingency and a scheme budget of £20.2m.

23. The Council went out to tender using a single stage OJEU compliant open procurement procedure which included evaluation criteria based on a 60% quality 40% cost split, due to the heritage complexity of the project. Two bidders submitted a tender response in December 2018. The full cost and quality breakdown is shown in Confidential Annex 4 and a summary of the evaluation scores is set out below.

	%	Bidder A	Bidder B
Quality score	60	42.65	48.19
Cost Score	40	40.00	36.76
Total		82.65	84.95

24. The names of the bidders will remain commercially confidential until the contract has been awarded and a contract standstill period of at least ten calendar days following the notification of the award has been observed in accordance with the requirements of the Public Contract Regulations 2015. Both bidders are set out in Confidential Annex 4 along with an executive summary of the evaluation results, including the detailed costs of the bids.

25. On the basis of this evaluation, Bidder B has been identified as the successful bidder. It is recommended that Executive agree to proceed to the award of a contract to Bidder B as the construction contractor for the Guildhall project and for construction works to commence as soon as the contract is completed. This will lead to a 75 week construction programme, starting in Spring/Summer 2019 and finishing in autumn 2020.

Economic Case

26. York's Economic Strategy 2016-20 recognises the challenges that our city faces, in responding to its increasing attraction as a tourism and retail destination while seeking to promote growth in higher economic value sectors such as professional and technical, financial services and engineering. Fundamentally, this translates into a requirement for more office-based jobs, particularly in the city centre.

27. The Guildhall redevelopment thus has the potential to underpin further growth in higher paid sectors. It would provide workspace which would equate to 250 net additional jobs in target sectors in York. Over the first five years of operation, the Regional Econometric Model predicts that these jobs would contribute an additional £117m of GVA to the regional

economy. In addition, the construction phase would contribute 50 additional jobs at peak, and £7m GVA in total.

Potential Demand

28. The council currently successfully operates a large commercial portfolio with very high occupancy rates and there is a high level of confidence that the workspace provided in the Guildhall redevelopment would be attractive to potential occupiers, whether marketed as space for a single occupier, as several smaller serviced offices, or as a mix of serviced office and co working space.

29. There is strong demand for offices in the city centre, with availability at a 10 year low alongside growth in office-based sectors in York. Make It York (MiY) and the city's commercial agents report strong demand for offices for growth businesses in York and potential inward investors. The MiY review of existing co-working and serviced office accommodation in York and the broader region indicates that there is also strong demand for this type of accommodation, particularly for companies and entrepreneurs in the creative and digital sectors. Such spaces in York, which include The Hub, Hiscox Business Club, ACollective and Blake House, are all compromised by scale, quality or location, but are nonetheless close to full. Nationally, demand is growing for such space with co working facilities expanding in many of our major cities.

30. With approximately 80 businesses starting up each month in York, we are confident that co-working and desk-rental options identified in the Guildhall business plan would have also strong take-up. The anticipated charges identified in the business plan are in line with the costs of other such spaces, and our survey of existing businesses confirms that the costs would be acceptable. In terms of serviced office accommodation, there is also currently strong demand in York, with 14 responders to the survey indicating that they are currently looking for such space and would be interested in the Guildhall if it were available.

Updated Business Case

31. In 2017 Executive agreed a detailed full business case for the Guildhall scheme. This has been updated to show :-

- The costs of construction taken from the pre tender estimate
- Revised income estimates based upon updated market assessments of both office and restaurant sectors

- Soft market assessment of demand for a business club model amongst local businesses
- Updated operational cost
- Confirmed levels of grant support

32. The project review undertaken in 2015 considered a range of alternative options for the future of the Guildhall and at each step in the decision-making process alternatives have been modelled. Throughout the project elected members have been very clear of the desirability of retaining council ownership of the Guildhall. This limits the range of possible options but officers have revisited variations on the scheme to explore whether a lower-cost alternative exists that will both retain ownership and secure ongoing access for the council and the public.

33. Alternatives have been modelled to reduce the capital cost of the scheme, particularly to reduce the level of new build. These are set out in Annex 5. These variants did reduce the total capital cost but also significantly reduced the level of revenue income and some options also resulted in the loss of grant and in year revenue impacts of abortive costs being written off to revenue. They all resulted in an increase in annual revenue costs making them financially undesirable as well as failing to deliver the same economic benefits.

34. Only one option leads to a lower annual revenue cost than the full scheme and that is undertake an essential repair and maintenance scheme without the ancillary commercial uses, undertaking only the necessary remedial and upgrade work to deliver access to the Council Chamber and Guildhall to support the civic functions of the Council and repair and redecorate the existing office space for re occupation. Disabled access would remain as it is, there would be no sustainable energy improvements and the Guildhall, whilst benefitting from improved wall heating, would not benefit from under floor heating or improved toilets and catering facilities. It is worth noting that this option would require the council to write off £1.3m of abortive costs to revenue in year. This would reduce the amount of budget available to deliver council services.

35. The revised business case is once again presented with a comparative analysis of undertaking a much reduced scope of works to simply repair and bring the building back into active use.

36. The table below shows the total capital costs of the two options, the grant income received and the level of borrowing required. This is then translated into the revenue cost of borrowing and is then netted against the trading

income and operating costs of each option. Whilst Option 1 has a significantly higher capital cost, the impact of grant and trading income means that the schemes are only separated by £23k pa. This is summarised in the table below:-

	Option1 Full scheme - Business Club & serviced Office	**Option 2 Repair / refurbishment - no restaurant or cafe with leased office**
Capital	£k	£k
Project Mgt	581	501
Enabling Works	615	615
Construction	16,500	6,000
Fixtures Fittings & Furniture	300	250
Professional Fees	2,044	1,794
Party Walls	140	57
Total	**20,180**	**9,217**
Abortive costs - in year write off	0	1,260
Net Capital costs to finance	20,180	7,957
Existing capital budget	1,778	1,778
WYCA grant	**2,347**	0
Total Borrowing (including £8.6m approved Mar 17)	16,055	6,179
Revenue		
Restaurant	-150	0
Cafe	-15	0
Office income	-549	-102
GH / mtg room hire	-134	-50
Gross income	**-848**	**-152**
Operating costs	537	310
Net income	**-311**	**158**
Borrowing costs	**885**	**393**
Total Net Revenue Cost	**574**	**551**

37. The assumptions applied to this iteration of the business case take a prudent approach to potential income generation. The council also currently spends £125k pa on the building which will be saved. In addition the full scheme will protect and potentially enhance the level of business rates which, under current and anticipated future business rates legislation,

leads to the council retaining a proportion of the business rates income which would mitigate the cost of the scheme to the council. These potential additional financial benefits are set out in the table below.

Other financial considerations (£'000)		
Saving in current running costs	-125	-125
Potential Additional Business Rates	-40	0
Potential Additional income	-100	0
Possible additional benefits	**-265**	**-125**

Options Analysis

Option 1

38. The capital costs reflect the outcomes of the tender exercise and further advice from the Council's external commercial advisors. An additional contingency sum has been identified to reflect the complexity of the scheme and the heritage status of the existing buildings. This gives a total construction budget of £16.5m, with a net revenue cost of £574k pa.

39. Following external valuation advice, the income projections have been revised down to reflect prudent assumptions about take up and values to be achieved from office rental. There is significant opportunity for this to be over achieved and to increase over time thus reducing the revenue cost to the council.

40. The restaurant and cafe leases have been assumed at a lower level to reflect that the food and beverage industry nationally is experiencing challenging trading conditions, although in York the market remains relatively buoyant and agents have high levels of confidence in identifying a suitable tenant and have identified current active market interest in the Guildhall.

41. The potential achievement of additional income is set out in para 37 and would reduce the annual net cost to approx £300k.pa.

42. The operating costs assume an ongoing repairs and maintenance budget and given the extensive repairs and new build being undertaken, the future capital costs of the Guildhall are incorporated into this business plan.

Option 2

43. The capital cost of a simple repair scheme will cost approx £6m, to address the structural weaknesses in the tower and roofs, to upgrade the core M&E systems and bring the complex back into operation. This would not deliver Local Growth Fund objectives therefore the scheme would not be eligible for the £2.347m grant from LCR LEP.

44. The quality of the office space would be poor and would facilitate only a low revenue income, therefore the Council would still need to service a significant proportion of the cost of borrowing from revenue budgets. This would result in revenue costs of £551k per annum. In addition a proportion of the costs to date would also need to be written off to revenue. To date we have spent c£2.4m of which it is estimated that c£1.3m may be classed as abortive costs and written off to revenue in year (this would need detailed assessment). This would reduce the amount of budget available to deliver council services.

45. This option would require a new procurement with a delay of at least 12 months during which time the council would incur ongoing running costs of £125k.

46. This option would still retain some of the poor quality 20th century additions to the complex which will, in the medium term, require further capital repairs expenditure.

47. This option would deliver limited public access with poor public facilities and with only partial Disability Discrimination Act compliance.

Conclusion

48. There is no cost-neutral option for the future of the Guildhall. Decades of under investment have left the building in a poor and disintegrating state of repair which must be remedied. The council, as custodian of this important heritage building, have a duty of care to address this decline. The building is currently costing the council £125k pa to leave empty.

49. The strategic and economic case for the full Option 1 scheme remains strong. Since the early inception of the scheme there has been an increase in capital costs arising from both the structural defects and the complex river logistics. Despite significant income generation for both the commercial elements of the scheme and from the office and business

space, the scheme will require an ongoing revenue budget to deliver and maintain it.

50. This ongoing revenue is necessary to secure a long term future for the building, to secure it for community and civic use and to keep the Guildhall in public ownership.

51. Whilst the minimal repair scheme looks cheaper, with no potential to increase income from this scheme, with abortive costs of £1.3m to write off in year and with no economic uplift this option is not recommended.

52. The Option 1 full scheme will cost only £23k pa more than the minimal repair scheme but it will :-

- Generate economic benefits for the city with 250 jobs and a GVA uplift of £117m pa.
- Increase public access to the Guildhall
- Provide a better return on investment with higher income and a future potential for over achievement of income
- Avoid future medium term repairs costs
- Retain the full WYCA grant of £2.347m
- Prevent abortive costs impacting on in year revenue budgets

53. It is recommended that Executive exclude the “repair only” Option 2 and continue with plans to deliver the Option 1 full scheme.

Council Plan

54. 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

55. **Financial** –
The report highlights the increasing costs of the scheme due to additional works (£3.3m) inflation (£1.2m) and extended project programme (£2.9m). This leads to a revised total capital scheme budget is £20.2m. This leads to a requirement for additional borrowing of £7.4m compared to the previously approved budget.

56. It is proposed that the increased cost is funded through prudential borrowing. This results in a total value of prudential borrowing being £16.1m and an annual net revenue cost of £574k per annum. Should the operation delver higher revenue returns this will be used to reduce overall borrowing costs.

57. The additional capital cost and associated borrowing costs have been incorporated within the Capital Budget 2019/20 to 2023/24 report and the Financial Strategy 2019/20 to 2023/24 report elsewhere on the agenda. The additional borrowing costs necessary to meet the projected additional capital cost of delivering the scheme are set out in the report.

58. Should the option to only undertake minimum repairs there would be a need to write off c£1.3m of abortive costs back to revenue. This could not be contained within current budgets and therefore would need to come from council reserves and would impact upon core council services. This would need to be considered as part of the year end closedown process and the implications reported back to Members as part of the Year End Finance and Performance Report in June 2019.

Human Resources (HR) – none

Equalities – The delivery of the scheme will directly address many of the issues of poor accessibility suffered at the Guildhall and access to the complex and the council chamber including the public gallery will be improved by the development in line with the requirements of the Equalities Act.

Legal – The Council has undertaken a compliant procurement exercise in accordance with both the Council's Contract Procedure Rules and the Public Contract Regulations 2015.

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.

Information Technology - The most appropriate arrangements for providing IT services for the office and business space will be discussed and agreed with the Head of IT.

Property - It is proposed to offer a lease for the commercial space, following a competitive marketing process. In order to achieve the highest possible value for the lease opportunities a long lease of up to 250 years will be considered and it is proposed that the length of the lease will be agreed by the Director of Economy and Place in consultation with the Executive Member for Finance and Performance The Council will retain the freehold to the entire site.

Risk Management

59. 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.

60. 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. A project risk register is maintained for the project and will be updated to reflect the revised risk profile of the proposed delivery option.

Financial Risks

61. Capital Cost - The council has worked with both bidders to ensure the structural condition of the Guildhall is understood and proceed accordingly. There is a contingency within the project however given the complexity of the project in terms of access and condition it is possible that the cost will go above budget. This can be mitigated through close contract management and partnership working. Progress on the project will be reported back to Members through quarterly monitoring reports.

62. Revenue Costs - The estimates for revenue income at the scheme is based on current market conditions for restaurant and office space. The rates received will ultimately be dependent on market conditions at the time of the completed scheme. There are opportunities to review the layout of the building to maximise income and we shall closely monitor the economic factors that will impact the income levels.

Contact Details

Author:
Tracey Carter
Assistant Director
Regeneration and Asset Management
Tel 01905 553419

Chief Officer Responsible for the report:
Neil Ferris
Corporate Director of Economy and Place

Report Approved √ **Date** 4 February 2019

David Warburton
Commercial Project Manager
Major Projects
01904 551312

Specialist Implications Officer(s) List information for all

Financial implications
Patrick Looker
Finance Manager
01904 551 633

Legal implications
Cathryn Moore
Legal Manager – Projects
Tel No.552487

Property implications
Nick Collins
Property Manager
01904 552167

Wards Affected: List wards or tick box to indicate all **All** ☐
Guildhall Ward

For further information please contact the author of the report

Annexes
Annex 1 – Plan
Annex 2 – Images of structural damage
Annex 3 - Guildhall Scheme design
Confidential Annex 4 – Procurement evaluation
Annex 5 – Analysis of options - Long list

Background Papers:
Executive reports –
29 Oct 2015 - The Future of York's Guildhall & Riverside
14 July 2016 - The Guildhall – Detailed Designs & Business Case
16 March 2017 the Guildhall – Development of the Complex.
8th May 2018 – The Development of the Guildhall Complex

Glossary

CCTV – Closed Circuit Television
ECI - Early Contractor Involvement
FM – Facilities Management
GVA - Gross Value Added
LCR LEP – Leeds City Region Local Enterprise Partnership
M&E – Mechanical and Engineering
PTE – Pre Tender Estimate