

Executive

8 May 2018

Report of the Director of Economy and Place

**Portfolio of the Executive Member for Finance and Performance and
Executive Member for Economic Development & Community Engagement**

The Development of the Guildhall Complex

Summary

1. The Guildhall is one of the Council's most prestigious and historically significant assets. CYC have already made a clear decision to retain the site and to ensure that it is given a viable commercial purpose for the future. The redevelopment will secure the future of the complex by delivering :
 - A high quality serviced office venue with virtual office and business club facilities to support our economy.
 - New riverside spaces for a high quality commercial restaurant
 - Significantly improved facilities and amenities serving the Medieval Guildhall including; under floor heating, improved access / circulation, adjacent foyer space, cloaks / toilets provision and a cafe/bar, bringing this space into more active public use.
 - Ongoing use for Full Council meetings and other Civic events
 - Repair and maintenance of the structure and fabric to conservation standards

2. This report sets out the latest position for the development of the Guildhall complex; specifically the procurement process undertaken to appoint a construction partner and the outcome of the Early Contractor involvement and the rationale for the officer decision not to proceed into the construction phase. The paper also sets out a recommended option for Executive to agree on the way forward.

Recommendations

3. Executive are asked to :

- I. Confirm the scope for the regeneration of the Guildhall as set out in the options section of the report.
- II. Approve the procurement of a construction contractor for the Guildhall project based upon the option determined under recommendation 1
- III. Due to the complexity of the Guildhall project to bring a further report back to Executive for Contractor appointment and determination of the final budget in the Autumn.
- IV. Enter into further discussions with Leeds City Region Local Enterprise Partnership (LCR LEP) to seek to increase the level of grant funding to deliver the Guildhall scheme

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

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 period at a cost of c£125k pa.
5. A condition survey undertaken in August 2013 highlighted a backlog of repair and maintenance items, the generally poor condition of the complex, life expired services and poor accessibility. The costs of remedial action were estimated at c£2.5m at 2013 prices, before the full extent of the structural problems with the north annex tower were known.
6. The complex has continued to deteriorate since that time, although timely remedial action in 2014 to repair roofs / gutters prevented further unnecessary damage as a result of water ingress. There are, however, a number of significant 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 south range. 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 Executive decision in March 2017 to agree:
 - (i) The detailed business case for the regeneration of the Guildhall.
 - (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.
 - (iii) Accept the terms of the Local Growth Fund (LGF) grant of £2.347m, from the Leeds City Region Local Enterprise Partnership (LCR LEP)
 - (iv) The award of a 25 year lease to a restaurant operator for the new build north annex riverside restaurant following a competitive marketing exercise.
 - (v) 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.
 - (vi) Procure a construction contractor and to commence the construction of the Guildhall project in accordance with the Planning and LBC approvals and business case.

Progress to date

10. 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
- New services including a River Water Source Heat Pump

11. Significant progress has been made to deliver the scheme :

- a. A LCR LEP grant £2.347m was agreed and is specifically targeted at supporting business growth and job creation. Re-payment provisions would apply only where our business case income projections are exceeded
- b. Restaurant marketed and a preferred bidder identified
- c. Business case refined to confirm expected income and grant to fund a £9m build cost.
- d. Party Wall agreements in negotiation.
- e. Upgraded electricity supply commissioned
- f. Management plan agreed
- g. Additional Listed Building Consent applications Submitted
- h. Planning condition details submitted
- i. Further structural and archaeological surveys undertaken
- j. Detailed construction work packages defined

The Procurement

12. Due to the complexity of the project, in particular the building's historical status, riverside location and structural issues and in order to de-risk the project, a 2 stage procurement process was undertaken for the appointment of a construction contractor.
13. The first stage (early contractor involvement or ECI) would see the construction partner develop detailed workpackages, provide final costs after testing each workpackage with their supply chain. The outputs would be a series of detailed workpackage and a final contract price with a target construction cost £9m +/- 12%.
14. The second stage would be to agree the contract cost and proceed into construction. This approach would enable us to rigorously explore the complex technical aspects of the project before agreeing a price and proceeding into construction. This process was designed to give greater certainty in delivery of the works to time, cost and quality targets.
15. Interserve were appointed in late August 2017(following OJEU compliant procurement) and commenced with a 3 month Early Contractor Involvement phase to develop detail costs / delivery programme. However, it took Interserve until mid February 2018 to submit a detailed proposal.

This was incomplete, with a number of work packages not having demonstrated value for money and containing provisional sums which would subsequently need to be firmed up. Significantly, the overall price exceeded the target cost estimate of £9m being well in excess of the 12% +/- tolerance stated in the initial tender.

16. The stage 1 submission :

- did not comply with the stage 1 contract, being incomplete
- exceeded the tolerances within the tender
- did not evidence that value for money was being achieved
- exceeded the agreed budget parameters
- could have led to a procurement challenge had we proceeded to stage 2 of the contract on the basis that the changes to the overall price constitute a substantial modification, in contravention of the Public Contracts Regulations 2015.

17. Having considered the outcome of the stage 1 ECI phase the Corporate Director of Economy and Place determined that Interserve's submission did not meet the agreed contractual conditions to proceed to stage 2, and could not therefore instruct the Project Manager to issue a notice to proceed to stage 2. A notice of intention to terminate the contract with Interserve Construction Limited was issued, in exercise of the Council's termination rights under the contract, and in accordance with the contract conditions.

18. The work undertaken by Interserve Construction Ltd to date at a cost of c£150k have provided us with: a detailed programme and site access / logistics proposals / drainage surveys / GPR survey / further structural survey / investigation / sampling / production of Bills of Quantities and detail design info for works packages , and is therefore not abortive work if the project proceeds on a similar basis. All of this work was an essential preliminary step before proceeding into construction.

Future Options

19. The previous Executive report identified the key cost and delivery risks. We sought to mitigate these risks through the agreed 2 stage procurement process. However, the cost of undertaking the works necessary to deliver the project scope (specifically the structural stabilisation work and associated site access / logistics) are now estimated to significantly exceed original budget estimates.

20. In order to ensure that effective cost control is maintained on the project and Members retain strategic control of the project, the contract will not

proceed to stage 2 (construction). Members now have the opportunity to consider how they wish to progress the project.

21. All options assume that the Council wishes to retain the Guildhall for Civic functions and undertake repairs necessary to ensure its structural integrity and safe occupation.
22. In all scenarios it is also recommended that the works are re-tendered through an OJEU compliant procedure. The ECI work undertaken with Interserve Construction Ltd (further investigations and some detailed work package design) has allowed the Council to more accurately define the works requirements, however, cost risk cannot be completely eliminated due to the nature of the work.
23. There are certain minimum timeframes involved in the re-tender process, but because of the complex nature of the project works an adequate tender period must be allowed to secure a strong market response. Following the option decision a detailed programme will be finalised to re-package and re-tender the works in the shortest possible timeframe, with a target of securing tender returns for evaluation in the autumn and a contract award before the end of the year, with the target of a start on site in early 2019.
24. The complexity of the project and the logistical challenges of delivering the works do mean that risk remains in the refined capital costs. It is therefore proposed that a further report is brought back to members following a procurement exercise to agree the award of a new contract and a revised budgetary commitment.
25. The rationale underpinning the current scheme remains strong. The Guildhall is one of the most historically significant buildings in York and this is a once in a century opportunity to address the poor condition of the historical core and give it a long term viable commercial future that will ensure the building is properly maintained in the future. The scheme as designed creates new spaces that increase public access, supports small business growth, provides a sustainable income to conserve and maintain the historic building and provide carbon efficient energy solutions. The scheme contributes well to the economic strategy for the city and has attracted grant funding to support that purpose. The scheme benefits from planning and listed building consent approvals and many of the conditions have either been or are in the process of being discharged.
26. Timing is also an important consideration. A timely decision was taken not to proceed to stage 2 of the Interserve contract where value for money could not be demonstrated. Any further delay to the delivery does have a cost implication; there is the direct cost of the re-tender process, but

construction cost inflation must be factored in. A clear decision to re-tender the works will minimise this impact and the proposed single stage restricted tender, based on the developed full design information is intended to secure best value for money from the market. Risk is not eliminated, but the risks are better understood and the more detailed design information and specifications are now available.

27. Given the above circumstances there are 3 viable options to progress the Guildhall project :

Option 1 – proceed with the scheme as currently scoped

Option 2 - Adjust the current scope to reduce cost

Option 3 – Undertake only essential repairs and maintenance work

Option 1- to proceed with the scheme as currently scoped

28. The scheme proposed included ambitious proposals for the complex. These were specifically designed to achieve maximum benefits and secured the necessary approvals. However, we now understand the complex and challenging structural solutions necessary - specifically in relation to the south range proposals, solutions which are not only technically complex, but logistically difficult to deliver on this site. On the basis of the additional information developed through the Early Contractor Involvement phase; further surveys, detailed design, site access and logistics planning and market pricing, it is likely that a significantly increased project budget would be required to deliver the scheme as currently scoped. It would be necessary to assume an increase in the total project costs in the order of £5m to £6m. Additional borrowing at this level would cost £260k-£310k per annum.

Option 2 - adjust the current scope to reduce cost

29. To reduce the cost of the redevelopment through the removal of limited elements of the proposed works to the south range which has proven particularly complex to design / detail and specify and where the pricing revealed it to be particularly costly. By reducing :
- a. the scale of alterations to the south range removing the proposed upper floor to the cafe / cafe terrace and associated lift - retaining the existing single storey the requirement for significant structural work can be avoided.
 - b. The terrace above Room 1 to the river side of the medieval Guildhall would also be removed from scope on this basis.
 - c. The scope of the river logistics solution intended to service the site from the river thereby avoid significant construction deliveries

impacting on St Helen's Square and Lendal could also be reviewed on the basis of cost benefit - but significant city centre / footstreet disruption would then be a factor.

30. These proposals along with a number of other minor and pragmatic scope change / value engineering changes would see reduction in the project budget increase. The revised budget here would be an increase of £4-5m. However, the majority of the key project outcomes are still secured and the LCR grant funding would be unaffected. In this option the additional borrowing costs would be £210k to 260k. The reduction in scope will not impact on income from the restaurant but may have a limited impact upon the office space income and a more pronounced impact upon the cafe income. A revised business case will be presented to Executive when the full extent of the revised scope and construction costs are known.
31. There would be some reduction to the public access to the complex with a smaller cafe / no roof terraces. There could be significant impact upon the Lendal/St Helens area during an 18 month construction period which may cause unacceptable disruption to neighbouring traders and residents if construction access is allowed via this route.

Option 3 – Undertake only essential repairs and maintenance work

32. To abandon the current proposals for ancillary commercial uses undertaking only the necessary work to deliver access to the Council Chamber and Guildhall to support the civic functions of the Council and reopen the existing office space for re occupation by a small number of Council staff.
33. The detailed assessment of structural solutions undertaken as part of the Phase 1 work has identified additional repair and maintenance work particularly relating to the structural weaknesses in the tower and the estimates have risen from £2.5m in the 2017 report to between £3-5 million. The wide range being a function of the price risk associated with the constrained site, river working and the extent of the necessary structural work.
34. This option would not meet the Local Growth Fund objectives nor facilitate any commercial revenue therefore the Council would need to service the full cost of borrowing costs of £3-£5m and repay grant to LCR LEP. This would result in borrowing costs of £160k to £260k per annum. It is also worth noting that as the project is not proceeding on a similar basis we would have to revisit spend already made and determine how much would be classed as abortive and therefore written off to revenue. To date we have spent c£1.5m of which it is estimated in the order of £0.5m to £1m

may be classed as abortive costs– although this would need detailed consideration

Analysis

35. A timely decision has been made to not proceed to stage 2 of the contract with Interserve Construction Limited where value for money could not be adequately demonstrated. However, further delay and or significant re-design would add significantly to the overall time delay and incur further additional project costs. The proposed scheme has the necessary statutory approvals and financial grant support - a restaurant tenant has been identified in line with the original business case. However, proceeding to undertake the full scheme where the high cost and logistical difficulties of particular elements are now known would ignore the value and benefit derived from the Early Contractor Involvement process.
36. We now have the option to undertake a pragmatic scope reduction and cost savings, which do not fundamentally impact the scheme outcomes, but should also make it more attractive to the construction market assisting in securing best value.
37. Accordingly it is recommended to proceed with option 2 for the following reasons :
 - This option minimises the project delay and ensures that the value of the ECI phase work is realised for the project in re-tendering the delivery of the works in the most effective way
 - This option is also the least cost revenue option for the Council. This decision does not commit the future budget.

Council Plan

38. 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

39. **Financial** – The additional borrowing costs necessary to meet the projected additional capital cost of delivering the scheme are set out in the report - this report is not seeking budget decision but the information is necessary to inform the consideration of the options. An increase in borrowing costs will mean that the business case for the Guildhall no longer breaks even and the net cost will need to be considered as part of future Council budget decisions.
40. **Human Resources (HR)** – The HR implications have not changed from the 2017 Executive decision
41. **Equalities** – Options 1 and 2 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. Option 3 will leave some parts of the complex inaccessible.
42. **Legal** – Legal Services advice has ensured that the decision to not proceed to stage 2 of the contract with Interserve Construction Ltd complied with the contract conditions, and that the contract has been lawfully terminated. The re-procurement of the project under Option 2 must follow an OJEU compliant procurement procedure. A further report should be brought back to Members for consideration following the re-procurement exercise to agree the award of a new contract and a revised budgetary commitment.
43. **Crime and Disorder** - The design of the complex for options 1 and 2 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. Option 3 will fail to improve the security of the building which is currently weak.
44. **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.
45. **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.
46. **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. The contract / lease arrangements for the cafe will ensure that the Council retains full control of the site.

Risk Management

47. 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. The recommended option proposes the most effective route to re-tender the works and reduces cost risk. Option 3 would address short to medium term maintenance issues but would not address the long term structural condition issues nor provide a budget to do so in the future.
48. 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.

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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 – Summary Plan

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.