



City of Westminster

# Cabinet Report

<b>Meeting</b>	<b>Cabinet Meeting</b>
<b>Date:</b>	<b>5<sup>th</sup> June 2017</b>
<b>Classification:</b>	<b>General Release Report</b>
<b>Title:</b>	<b>Westminster City Hall Refurbishment Programme</b>
<b>Wards Affected:</b>	<b>St James' Ward</b>
<b>Financial Summary:</b>	<b>The financial implications are detailed in full as part of the Part B confidential report</b>
<b>Report of:</b>	<b>Guy Slocombe Director of Property, Investments and Estates</b>

## 1. Recommendations

Members are asked to:

- 1.1 Approve the award of the contract to the preferred contractor within the approved budget as detailed in the Part B report.
- 1.2 Delegate authority to the Director of Property, Investment and Estates and the Director of Law to award the contract and execute works.
- 1.3 Approve the use of flexible capital receipts to fund qualifying revenue costs up to a value of £27.1m.

## **2. Reason for decision**

2.1. Approval of the recommendations contained within this report will enable the City Hall Refurbishment Programme to continue as planned and:

- Upgrade a building that is not compliant with current environmental legislation in order to support a more sustainable building in the future;
- Provide professional office accommodation more appropriate to the Council discharging its responsibilities;
- Improve the Council's ways of working for staff by encouraging modern working practices, in turn providing efficiencies and cost savings for the Council;
- Generate income from letting high quality surplus accommodation to support the Council's revenue budget;
- Reduce the environmental footprint of the Council's working practices;
- Reduce energy costs associated with the building;
- Increase staff satisfaction with their working environment;
- Improve the quality and function of Westminster City Hall.

## **3. Introduction**

3.1. In May 2016 Cabinet considered a range of options regarding the future of City Hall. They approved Option 2 (self –development) for the refurbishment of City Hall. Over the last twelve months Officers have:

- Secured temporary accommodation at 5 The Strand and Portland House for decant purposes
- Completed the decant of City Hall staff to the appropriate temporary accommodation
- Completed the design for the refurbishment of City Hall
- Completed a stage one tender for the construction works and completed the PCSA for the refurbishment

3.2. All of the above has been completed the programme, and within the agreed budget.

3.3. Officers have reviewed the Outline Business Case (OBC) submitted to Cabinet in May 2016 and have updated this to form the Full Business Case (FBC) which is detailed in the Confidential Part B report to Members.

- 3.4. The FBC has been approved at Gate 2 and confirms that Option 2 (self-development) is still the most appropriate and cost effective way to deliver the critical success factors listed in 2.1 above.
- 3.5. Approval is now required to award the Building Contract in order to carry out the refurbishment works and allow for the recant to City Hall upon completion.
- 3.6. There is a Full Business Case to support the City Hall Refurbishment Programme which contains a detailed Strategic, Economic, Financial, Commercial and Management case. This information has been used as the basis of the Cabinet Report and Confidential Part B reports to Members.
- 3.7. The Confidential Part B report contains information that is considered commercially sensitive and therefore confidential, though can be made available once contracts have been awarded

#### **4. Executive Summary**

- 4.1. Since 2010, the Local Government grant from Central Government has reduced significantly and, as a result, Westminster City Council has faced substantial financial challenges. The Council will continue to face pressures arising from commercial, legislative, demographic and operational matters, as well as contractual and inflationary pressures.
- 4.2. It is important in this context of austerity that the Council identifies opportunities to generate income and save costs to ensure that it can continue to provide appropriate quality core services. City Hall has been identified as an asset that the Council should use more effectively both from a financial and operational perspective. It is acknowledged that large scale investment is required in order to achieve this.
- 4.3. The City Hall Refurbishment will deliver savings through reduced running costs and letting of surplus high quality office accommodation to generate income and which will deliver a modern building which provides a modern, fit for purpose building for councillors, staff and visitors.

#### **5. Strategic Context**

- 5.1. City for All is the three-year strategy (2015-2018) for Westminster City Council. The ambition is to promote opportunity and fairness across the city, set the standards for a world class city underpinned by an open, working partnership amongst residents, businesses and stakeholders. The City Hall refurbishment will support the Council's continuing aspirations and vision.

## 6. Case for change

- 6.1. Current status of City Hall, the City Hall building, along with its base mechanical and electrical systems, date back to the 1960s. As a result, the maintenance has become increasingly difficult to manage and costly. The building was not designed for modern work styles and the number of people using City Hall places unmanageable demands on aging plant and infrastructure. Equipment failures are becoming increasingly frequent as significant elements are coming to the end of their life and this is seriously impacting customers and employees ability to use the building. City Hall presently fails to provide the Council with a positive corporate image. It fails to provide staff and Councillors with a suitable environment in which to greet visitors, or work effectively. As a result of the age of the building services, mechanical and electrical systems and plant, the windows and lifts, it provides an environment which regularly fails to work at capacity or to a modern working standard.
- 6.2. Current letting ability of City Hall, with the current Energy Performance Certificate (EPC) rating for the building is between F and G, which under Section 49 of the Energy Act 2011 will make it unlawful for the Council to let accommodation in City Hall. This means at the very least, that the Council will need to significantly upgrade the energy efficiency of the building in order to continue to sub-let surplus space to third party tenants and generate income. While it may be possible to increase the energy efficiency rating at City Hall, the under capacity of the lifts, poor condition of WC's etc. will be a hindrance to letting. Whilst accommodation can be let until 2018 in its present condition it is unlikely tenants would take the space in its existing condition except at a significantly discounted rent.

## 7. The Options

- 7.1. In line with HM Treasury guidance an options appraisal was undertaken, firstly with a long list of options and, having reduced the list, secondly a more detailed review of the short listed options. Options in relation to the scope, solution, delivery, implementation and funding were all reviewed against the objectives and critical success factors.
- 7.2. The prerequisites for the project which informed the long list of options were as follows;
  - **Strategic Fit:** Supports the City for All strategy with a long term solution in the heart of the Whitehall area. This will ensure that the

Council is able to continue to contribute to the development of our unique global city.

- **Achievability:** Able to be completed by the end of 2018/ early 2019.
- **VFM:** (Efficiency and effectiveness for the money spent). The income and savings generated as a result of the investment (both financial and non-financial) are commensurate to the investment in to the project.
- **Potential affordability:** Ensure it is affordable to the Council in terms of the capital investment

7.3. The long list of options was presented to Cabinet and following an analysis of the advantages and disadvantages of the long list options a shortlist of options was drawn up for further consideration.

- **Option 1a: Do Nothing.** Do not invest in the plant or machinery of City Hall
- **Option 1b: Do Minimum.** Minimal refurbishment approach. Floor by floor and essential replacement of central plant.
- **Option 2: City Hall Refurbishment (self-develop).** Full refurbishment of City Hall delivered by the council with full decant to temporary locations.
- **Option 3: Acquire new building.** Acquire new building and refurbish City Hall.
- **Option 4: City Hall refurbishment (developer finance. Developer Finance)**
  - Capital contribution only
  - Rent contribution only
  - Hybrid (Capital and rent contribution)
  - Joint venture

#### 7.4. **The Approved Way Forward**

Officers carried out extensive analysis to determine the most appropriate asset management strategy which both optimises the cost efficiency (income and savings) and the working environment at City Hall. This ultimately concluded that a substantial refurbishment of City Hall provides the most cost and business effective solution and on the basis of that analysis the preferred way forward Option 2 – City Hall refurbishment (self-develop) was approved by Cabinet in May 2016.

## 8. Delivery

- 8.1. The 'Self-develop' option has been reviewed and remains the most favourable option from a commercial perspective. Given, that a key objective of the project is to increase income – it was decided that the 'self-develop' option was the preferred option with the Council acknowledging the risk that will need to be taken. Our marketing agents GVA have undertaken analysis of the rental market in London given recent political changes and continue to predict an increase in rental income from £42.50 per sq. ft. in 2012 to c. £85 per sq. ft.
- 8.2. The building contractor has been procured via a two stage design and build basis under JCT Major Works form of contract via the restricted OJEU process. This requires a procurement exercise for a construction partner at 1st Stage to then work under a Pre-Construction Services Agreement (PCSA) to complete the design of the refurbishment and provide a fixed price at the end of 2nd Stage. The 1st Stage tender was competed via the open market via OJEU with three successful bidders shortlisted from PQQ to ITT.
- 8.3. All three bidders passed PQQ compliance requirements and demonstrated sufficient technical capability to be able to proceed to ITT.
- 8.4. During the ITT all three bidders were invited to a detailed briefing session and multiple site visits to ensure full disclosure of the scale of the refurbishment and the partnership requirements from Westminster with the successful bidder, this includes sharing Westminster's vision and City For All. Stage 1 Tenders were received 12/09/2016 and evaluated by a combined panel of Westminster representatives and specialists from the design team and cost consultants. The contractor, ISG were recommended as preferred bidder for appointment under a PCSA. The Procurement Assurance Board (Gate 2) supported the recommendation which was then approved by the Executive Director of Growth Planning and Housing under previously agreed delegated authority.
- 8.5. Under PCSA, the contractor, ISG completed the design for all packages (72) and subsequently completed all packages under the principles of the WCC Procurement Code 2013, this requires a minimum of three quotes to be sought for smaller packages and a minimum of 5 quotes for the large packages (where possible). In order to promote Westminster's obligations to seek Best Value for Procurement all package returns were evaluated with a member of the appointed Cost Consultant to provide commercial assurance and challenge costs/returns if necessary, in addition all packages required an interview from the combined panel which required focus on successful delivery, budget and Social Value deliverables.

- 8.6. All responses over £100k were evaluated on a MEAT principle, reviewed and approved by WCC's independent cost consultants Faithful & Gould and all package process and results subsequently reviewed by WCC Procurement Services to verify results. The form of contract used is JCT Major Works with Westminster standard amendments, including the agreed LAD's and voluntary LAD's for Social Value deliverables.
- 8.7. The Stage 2 return was received on 28/04/2017 and subsequently reviewed by Procurement Assurance Board (Gate 2) on 09/05/2017 where the recommendation to accept the Stage 2 proposal was made to the Executive Director of Growth Planning and Housing to present to Cabinet for final approval.
- 8.8. The appointment of the contractor, ISG will be made in Q2 2017 upon approval from Cabinet to enable a start on site once full vacant possession of City Hall has been secured.

## 9. Required services

Service Required	Procurement approach
<b>Architecture and Design</b>	The professional team has been procured via a direct call off from an OJEU permissible framework (Scape) and appointed on an NEC3 contract. The appointment was approved by a Gate Panel (Combined Gate 1 & 2) 19 November 2015. Valuers from Surveyors Lambert Smith Hampton assured best value was achieved in accordance with section 123 of the Local Government Act 1972.
<b>Building Contractor</b>	The building contractor has been procured on a two stage design and build basis under an appropriate JCT form of contract via the OJEU process. Stage 1 Tenders were received 12/09/2016 and the Stage 2 return was received as expected 07/04/2017. The appointment will be made in Q2 2017 to enable a start on site once full vacant possession of City Hall has been secured.
<b>Temporary Accommodation</b>	The Council has acquired temporary accommodation for circa 1100 workstations (plus

associated meetings rooms etc.) at 5 Strand and Portland House and the majority of City Hall staff is now working from these locations.

### **Facilities Management**

Westminster City Hall and the temporary decant space is being managed by Amey under the existing service agreement which covers all existing and future Westminster occupied property. With the exception of the staff canteen there is no planned reduction in the services provided during the decant but there could be an increase in the level of services post the refurbishment as commercial sub-tenants will expect/demand a higher quality service. Much of the additional cost will be recovered via the service charge. As a result of the refurbishment there should also be a reduction in the cost of unplanned repairs & maintenance and any defects in the newly refurbished building will be covered by the contractors defect liability period, design warranties, product guarantees and initial service contracts. There will be no additional cost for decant to Lisson Grove.

## **10. Decant Strategy**

10.1. The temporary decant space was required in advance of the decant from City Hall to enable ICT to install, commission and test services and post the anticipated date of practical completion to allow for programme overruns and or late commissioning of IT services. Decant started on 12 March 2017 and will be completed on 30 May 2017. Departmental Business continuity champions have updated plans to take account of decant and agile working. The Corporate gold, silver, bronze cascade response remains in place and in the event of a major emergency the Borough Emergency Control Centre (BECC ) can be mobilised at Portland House (room 23.1), Lisson Grove (Mezzanine Level), 5 Strand (rooms 3.6 & 3.7).

## **11. Benefits**

11.1. **Financial Benefits:** Greater commerciality and income generation (see Part B for more information).



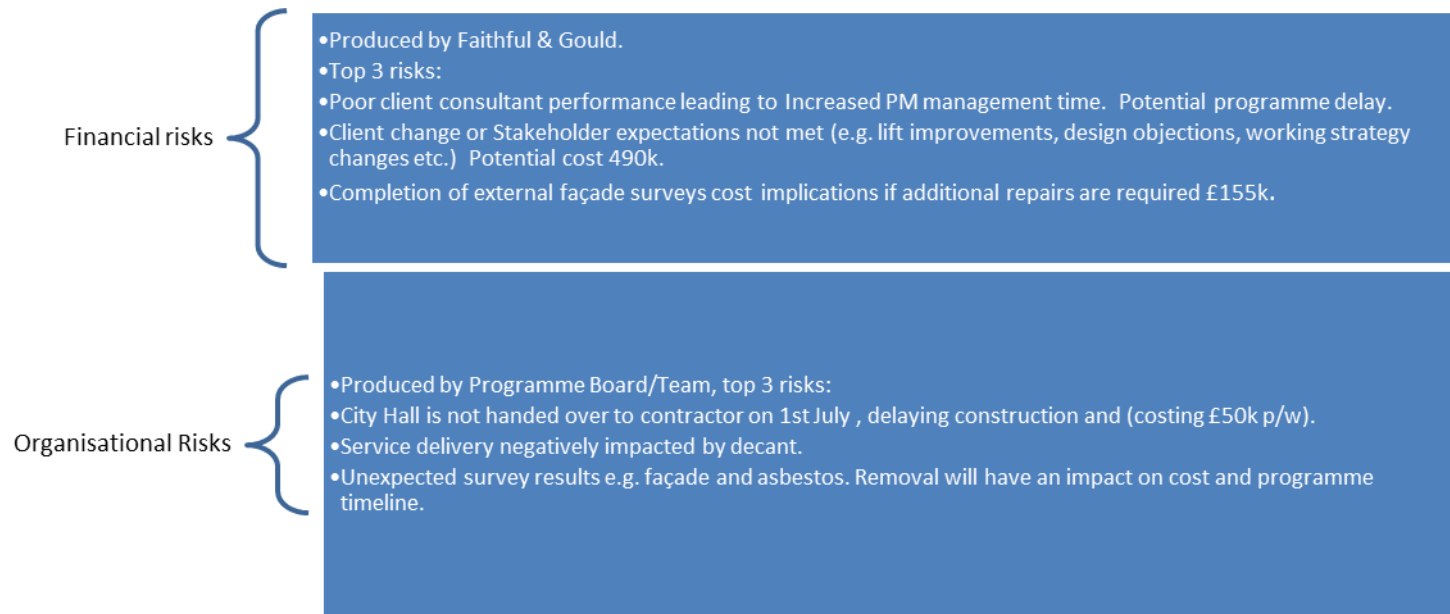
- 11.2. **Reduced time waiting for lifts:** The lifts within the current building are not fit for purpose. They cause notable delays on a day to day basis for staff and visitors. The poor performance of the lifts results in a notable reduction in productivity. It takes staff a greater amount of time to reach their desks when they arrive in the morning, and also results in delays between meetings and at lunch breaks.
- 11.3. **Improvement in staff satisfaction:** The building is in a poor state of repair, the result on staff satisfaction levels have been proven through the results of the Staff Survey. Post completion it is expected that staff satisfaction will increase, this can be measured through the staff survey.
- 11.4. **Recruitment and retention of staff:** As the Victoria area continues to improve, having a modern fit for purpose office in this increasingly vibrant area is expected to positively impact on recruitment and retention of staff.
- 11.5. **Environmental impact:** There has been a significant amount of publicity regarding the low air quality and poor environment of central London. Westminster is amongst the largest power consuming authority areas in the UK. The City's power demand and carbon emissions mainly come from the built environment with approximately 75% from commercial buildings. Westminster City Council is committed to leading the way to become a more sustainable and liveable city, it has a reputational and leadership responsibility to protect and improve the environment. By improving the energy efficiency of the building this will not only result in savings for the Council but will have a positive environmental affect that will extend beyond the building. The refurbishment is expected to reduce carbon emissions by 45%.
- 11.6. **Local suppliers/Social Value Deliverables:** As part of the procurement the contractor is being asked to, as far as possible, source locally from the supply chain and provide a range of social value deliverables including local recruitment, 20 Apprentices (10 from Westminster and 10 from Greater London), 3 work experience placements for Westminster students, 95% of project waste to be diverted from landfill via reuse and recycling, 5000 cubic meters of water to be saved via water reduction methods.

## 12. Letting Strategy

- 12.1. Floors 1-10 are being and will continue to be informally marketed in advance of the start on site in an effort to secure a pre let. If a pre let is not secured before practical completion the space will be formally marketed in the run up to and post practical completion
- 12.2. The Victoria office market has increased in popularity over recent years and continues to grow, attracting new tenants across financial, tech and fashion sectors.

- 12.3. Much of the new accommodation constructed caters for large floor plate requirements. City Hall will offer a point of difference for tenants requiring 5,000 – 10,000 sq ft.
- 12.4. As the rental values continue to rise it is sensible to avoid agreeing terms too soon. However there will be focus on ensuring the accommodation is let in advance of completion of the refurbishment.
- 12.5. The specification of the refurbishment will be homogenous across all floors and letting terms across two floors will be agreed to allow flexibility should the Council need to expand, or contract, its occupancy of City Hall.
- 12.6. If a pre let is not secured before practical completion the space will be formally marketed in the run up to and post practical completion. A formal marketing strategy has been devised by the joint letting agents after the start on site is confirmed.

## 13. Risks



## **14. Legal Implications**

- 14.1. Legal advice and assistance is being provided by external solicitors, Bond Dickinson LLP and the Tri-Borough Legal Team as appropriate.
- 14.2. The programme requires the Council to secure vacant possession of City Hall by serving notices on a variety of tenants, enter into new leases on temporary accommodation, secure landlords consent for the works and rights to over sail adjoining property, procure and appoint a professional team and building contractor, secure warranties and guarantees, enter into various planning agreements, let surplus accommodation to various third parties and possibly vary various existing FM & ICT contracts.

### Current Tenancies/Vacant Possession

- 14.3. The existing sub leases contain mutual break clauses which when exercised will enable the Council to secure vacant possession. Bond Dickinson has reviewed the leases and has served valid notices at the appropriate time. The break notices bring the sub-tenancies to an end on 27<sup>th</sup> June 2017 which is when full vacant possession of City Hall will be obtained
- 14.4. The risk of the tenant's failure to comply with the notice is considered low. If one or more the tenants does not comply that would delay the start on site. If the start on site is delayed the building contract could be varied to include a soft strip of the vacant floors while full vacant possession is obtained.

### New leases on Temporary Accommodation

- 14.5. The new leases for Portland House and 5 The Strand were entered into in January 2017 and contain the ability for the Council to terminate the lease with minimum penalties, limit repairing liabilities, exclude any dilapidations liabilities, ensure rent & service charges are only due up to the break date.
- 14.6. In relation to these leases, Section 120 Local Government Act 1972 provides a general power to acquire by agreement. A local authority may purchase for the purposes of their functions or for the benefit or improvement of their area under section 120.

### Landlord's Consents

- 14.7. City Hall is held on a long lease from Land Securities and so it will be necessary to ensure the Council & its contractors comply with the terms of that lease. Bond Dickinson have already reviewed the lease and identified consents and additional rights required in advance of a start on site. We have agreed the terms for a Licence for Alterations with Land Securities.  
Professional Appointments /Building Contract/Warranties & Guarantees

- 14.8. The appointment of the professional team and the building contractor should be carried out in accordance with the Public Contracts Regulations 2015 and Westminster's Procurement Code. External legal advice on the procurement process have been provided by Bond Dickinson LLP.
- 14.9. A multi-disciplinary professional team (Faithful & Gould) has already been appointed on an NEC3 form of contract prepared by Bond Dickinson. The Building contractor will be appointed on standard JCT Design & Build form of contract and Bond Dickinson has and will continue to ensure that in all appointments and building contracts WCC has the ability to terminate where appropriate, receives all necessary warranties /guarantees, that the building contractor is fully responsible of all aspects of the design and workmanship and that the insurance provisions meet the obligations under the head lease.

#### Planning & other Statutory Consents

- 14.10. We received planning consent for the refurbishment on 30<sup>th</sup> August 2016. Bond Dickinson will advise on all other relevant planning matters relating to the redevelopment.

#### New leases

- 14.11. It is intended to sublet floors 1-10. Bond Dickinson will advise on the heads of terms agreed with prospective tenants and ensure the leases reflect the agreed heads of terms, provide for the tenant to pay rent/ service charge etc., contains the ability for the Council to break where agreed and complies with and reflects the terms of the head lease. If space is let during construction Bond Dickinson will also prepare and advise on agreements for lease which will secure the letting in advance of practical completion. Where necessary Bond Dickinson will also advise on Licences to Alter and ensure sub-tenants have adequate public liability cover and are obliged to comply with any buildings insurance requirements in relation to the proposed works. The Tri-Borough Legal Team will review all leases before completion.
- 14.12. If the Council wishes to dispose of any leases of 7 years or more it has a power to do so under section 123 Local Government Act 1972 provided it does not dispose of for less than the best consideration that can reasonably be obtained.

#### M & ICT Contracts

- 14.13. Contracts have been varied to enable services to be extended to the temporary accommodation, including the management contract with Amey and various IT suppliers.

### **15. Financial Implications**

- 15.1. The full financial implications are detailed as part of the Business Case.

**If you have any queries about this Report or wish to inspect any of the Background Papers please contact: Guy Slocombe – Director of Property, Investments and Estates [gslocombe@westminster.gov.uk](mailto:gslocombe@westminster.gov.uk); tel: 020 7641 5465**