

Report to: Cabinet

Date of Meeting: 25 April 2013

Subject: Southport Cultural Centre – Projected Out-turn

Report of: Strategic Director (Place)

Wards Affected: All

Is this a Key Decision? No

Is it included in the Forward Plan? No

Exempt/Confidential

No

Purpose/Summary

To update Cabinet on the projected outturn for this scheme and identify actions to address those additional costs

Recommendation(s)

That Cabinet;

1. Notes the projected outturns for the Southport Cultural Centre Project and likely cost overruns
2. Instructs the Director of Built Environment, in conjunction with the Head of Corporate Finance and ICT, to identify the means of meeting the projected funding shortfalls.
3. Recommends to Council that the Capital Programme be amended to include the Southport Cultural Centre final out-turns.

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community	√		
2	Jobs and Prosperity	√		
3	Environmental Sustainability	√		
4	Health and Well-Being	√		
5	Children and Young People	√		
6	Creating Safe Communities	√		
7	Creating Inclusive Communities	√		
8	Improving the Quality of Council Services and Strengthening Local Democracy	√		

Reasons for the Recommendation:

To advise Members of progress and likely outturn cost of the refurbishment of Southport Cultural Centre

What will it cost and how will it be financed?

(A) **Revenue Costs** – See Report

(B) **Capital Costs** – See Report

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal – There are no legal implications arising directly from this report	
Human Resources - None	
Equality	
1. No Equality Implication	<input type="checkbox"/> *
2. Equality Implications identified and mitigated	<input type="checkbox"/>
3. Equality Implication identified and risk remains	<input type="checkbox"/>

Impact on Service Delivery:

Delays in the completion of works at the Southport Cultural Centre have meant that temporary arrangements have had to continue (e.g. Temporary Library) beyond original expectations. Phased return of service provisions from the Atkinson commenced in April 2013.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance (FD.2230) and Head of Corporate Legal Services (LD.1546) have been consulted and any comments have been incorporated into the report.

Are there any other options available for consideration?

No

Implementation Date for the Decision

Following the expiry of the “call-in” period for the Minutes of the Cabinet Meeting

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Background Papers:

The following papers are available for inspection by contacting the above officer(s).
Cabinet report “*Southport Cultural Centre – Project Update*” dated 19 July 2012.

1. Background

- 1.1 Members will recall the Capital Programme Update report “*Southport Cultural Centre – Project Update*”, presented to Cabinet on July 19th 2012 which included information on the background of the project and the current position relating to the projected outturn costs. The report identified a projected cost over-run of £2.384 million as a result of the need for additional works and time delays. At that stage, a completion date in December 2012 was predicted following discussions with main contractor, Lend Lease and Sefton’s project management consultants Capita Symonds.
- 1.2 The report to Cabinet on 19th July 2012 gave detailed information in a number of important areas, including:-
 - Background to the Project Approval Process
 - Project Achievements
 - Challenges addressed during the construction process
 - The respective roles of the Council and its contract manager/consultant (Capita Symonds)
 - Summary of cost overruns
 - Proposed actions
 - Project Evaluation & conclusions
- 1.3 Specifically, the report detailed that Cabinet had originally agreed a report in November 2008 setting out a number of options for the refurbishment of the buildings forming the Southport Cultural Centre. The preferred option selected was for the implementation of a full refurbishment scheme with an anticipated cost of £22m. Following some extensive discussions with potential funders a budget was established based on grant offers “*in principle*” of approximately £8m from CABE from their Sea Change Programme (£4m) and from the North West Development Agency (£4m).
- 1.4 Normally for a project of this scale & complexity the process of developing the feasibility report into a detailed design, procuring a Contractor and, securing and testing a “*Target Cost*” for the project would take at least 2 years to complete, leading to a start on site in the spring of 2011. However, in early 2009 the Council were asked by CABE to bring the project forward to meet its revised programme requirements. This led to detailed discussions being held with the key external funders to determine the basis on which their formal (as opposed to “*in principle*”) grant offers would be made. It became clear that both CABE and North West Development Agency (NWDA), required the Council to make a physical start on the project in May 2010 and, more demandingly, to defray £8m of expenditure by the end of March 2011, in order to be able to claim their grant offers in full. Both funding bodies confirmed that failure to meet these targets and deadlines would result in significantly reduced (or possibly withdrawn) grant offers.
- 1.5 The external funders requirements proved extremely challenging to address as they effectively halved the time available for the project development process. An agreed “*Target Cost*”, was eventually established following a re-design developed in May 2010, at £11,366,801 (compared with the previous cost estimate of ~£22m

in 2008). In addition a contingency sum of £568,340 was identified. This equated to 5% of the contract sum (rather than the entire scheme cost) and was considered by Capita Symonds to be reasonable based on their knowledge of the building at that time. Other costs making up the total budget included design fees, surveys, legal and property costs and costs associated with the relocation of staff and artefacts.

- 1.6 With the co-operation of all parties and some careful programming, a site start was achieved at the end of May 2010. This resulted in the very challenging spend target of £8m by March 2011 imposed by CABE/NWDA being achieved, however this did have some detrimental impacts on the programme. Subsequently the Council has been successful in claiming the £8m of grants in full from both major funding parties.
- 1.7 Whilst maintaining good progress in order to meet the spending target, there were a significant number of “discoveries” within the first year of the project that resulted in significant additional costs and time delay. Whilst initial survey work was completed prior to the works starting helped inform the design of the project, many of these discoveries could not have been reasonably foreseen until work progressed on the internal stripping out and demolition. This has been a major issue throughout the project delivery.
- 1.8 The most significant “discovery” issues were:-
 - Significant structural weakness within the building resulting in the need for additional structural strengthening.
 - The structure of the 1980’s extension was found to differ significantly from that predicted, requiring redesign of the structural support, particularly within the proposed studio space. Importantly, the poor construction of the 1980’s roof extension required significant structural strengthening prior to the new roof construction.
 - Poor condition of the structural support under the main theatre stage resulting in significant additional timber strengthening.
 - The Lord Street stone façade was discovered to be in much worse condition than originally estimated, requiring significant additional repair work, to prevent pieces of masonry from falling.
 - There was evidence of structural damage within the Clock Tower requiring the extension of scaffolding and completion essential safety repairs.
 - Large areas of plasterwork, previously hidden behind wall boarding, were found to be in a very poor and unsafe condition, resulting in a far greater degree of replacement than originally estimated.
- 1.9 Progress on the project had also been affected by a number of external factors that had an impact on time. Lend Lease identified that would result in the Contract handover being delayed beyond the original target date and therefore incur additional costs.

- The scaffolding required within Lord Street to enable the stone works treatment was delayed by Scottish Power taking much longer than programmed to complete the electrical diversion works
- Entry to Cambridge Walks to complete the necessary drainage improvement works within this space was delayed some months through the very lengthy and costly process associated with securing agreement from Threadneedle (the previous owners of Cambridge Walks) and their lawyers.
- Delays and costs associated with the legal agreement with Threadneedle, including a compensatory payment to Arriva to secure their removal from the building and a compensatory payment to a shop owner necessary to secure vacant possession and to avoid the threat of a possible court injunction.
- Late delivery of the extensive detailed design information from Capita Symonds, necessary to meet the programme, also contributed to the delay.

1.10 At various stages in the project delivery Capita Symonds were advised that there were concerns about the numbers of staff they allocated to deliver this scheme, their level of experience and the frequency in which Capita staff were being moved on to and away from the project delivery team. Capita responded by giving assurances that they were resourcing the team correctly and that additional expertise was being drawn in from other parts of the Capita business.

1.11 The report of 19th July 2012 concluded that in light of the stage that the contract has reached and also taking cognisance of the fact that the Council had already served notice on Capita Symonds to terminate the Council's Service Contract with them the emphasis of on-going activity must be placed on getting the Cultural Centre finished at the minimum excess cost. However, officers would ensure that any necessary procedures are followed to ensure disputes are registered within relevant timescales so as to protect the Council's position in relation to any possible future action and to avoid being 'out of time' to make such challenges, but the primary objective is to complete the project before considering any other action. It was also noted that one of the most frustrating elements of the project has been the lack of direct control the Council is able to exercise in its relationship with its consultant and contractors.

2 Current Position

2.1 Since July 2012, Officers have worked to reduce additional costs and to minimise, wherever possible, the need for additional works which would increase the cost overrun. On 13th December 2012 Cabinet authorised the Strategic Director (Place) in conjunction with the Head of Corporate Legal Services to negotiate and conclude a commercial settlement with the main contractor for the Southport Cultural Centre if it could be shown to be in the Council's best interests, subject to final consultation with the Cabinet Member (Children, Schools, Families and Leisure). As a result, during December 2012, after extensive discussions with both LendLease and Capita Symonds to mitigate additional cost overruns and secure possession of the building to prepare for opening, agreement with LendLease was reached in respect of an agreed final payment for works completed and for a list of outstanding works, in the amount of £14.710 million.

The Council took possession of the substantive portion of the building on 3rd January 2013.

- 2.2 However, despite these actions, due to the complexity of the project and the range of additional but essential works required, the projected Capital Project overspend has increased by a further £1.206 million, bringing the total overspend to a projected £3.590 million, resulting in a £2.335 million unfunded projected outturn.
- 2.3 Running alongside the project capital works budget is a separate specialist client fit-out budget for works to prepare the building for its operational use. The initial fit-out budget was based on estimates prepared by Capita, as the project has progressed it became clear that the scale of fit-out works had to be increased, due to a number of circumstances, including:
- The replacement of theatre equipment
 - Increased IT requirements and costs
 - Increased operational requirements in order to meet the needs of additional business plan income targets
 - Increased Kitchen and Bar fit-out costs
 - Increased cost of furnishing the public areas
 - Conservation Officer requirements related to the interior of the building
 - Unforeseen accommodation requirements to meet additional business plan activities to generate additional income.
- 2.4 While every effort has been made to minimise costs in this regard, (e.g. by the reductions of standards of fit-out in non-public areas) it has been considered essential that the overall level of fit-out is of a high standard to enable the Atkinson to compete in a highly competitive leisure market and achieve the delivery of the ambitious projected income targets.
- 2.5 Although current capital and revenue provisions have been utilised to their full potential, and sources of potential external income have been (and continue to be) explored, it is projected that the additional cost of required fit-out works could, worse case, result in up to a additional £500,000 overspend.
- 2.6 The results of a number of fit-out tender packages are still awaited and the evidence of those which have been received indicates that some savings of projected costs are probable. This together with the very strict “best value” procurement of the still outstanding fit-out work packages gives a reasonable expectation that current projected fit-out overspend will be reduced.
- 2.7 There is also the potential for additional costs relating to a tenant of Cambridge Walks who is claiming that works to Cambridge Walks were not completed on schedule and in accordance with a development agreement made between the then owners of the Walks (Threadneedle) and the Council. The Council’s position is that works were complete in accordance with the development agreement and will vigorously defend any such claim. No allowance has been made for this claim in the above figures.

- 2.8 The final completion date for the balance of the capital contract works is 16th May 2013. The fit-out works, which are at an advanced stage, will continue beyond this date with full completion being achieved in June 2013.
- 2.9 The new Atkinson facility will open to the public on a phased basis with the Library, Reception and Tourist Information facilities being available from 2nd April 2013, the Main and Studio Theatres hosting their first events in early May 2013 and full opening being achieved in June 2013, save for the Museum fit out which is the subject of a separate HLF grant provision.

3 **Proposed Actions**

- 3.1 Following the report to Cabinet on 19th July 2012, Members agreed that the potential for minimising and/or recovering additional costs incurred should be explored. Arrangements were made for an assessment of the cause of all additional expenditure incurred to be carried out. Details of this assessment and potential courses of action to be taken are detailed in a further report in the exempt section of this agenda.
- 3.2 Cabinet are asked to note the projected outturns for the Southport Cultural Centre Project and likely cost overruns and instruct the Director of Built Environment, in conjunction with the Head of Corporate Finance and ICT, to identify methods and sources of funding to meet the projected overspend, including;
- the use of any underspends elsewhere in the Council's Capital Programme;
 - a review of currently approved Capital schemes which could be reduced or abandoned to allow resources to be allocated to the Cultural Centre;
 - the use of current and expected capital receipts;
 - and any other funding options such as additional prudential borrowing,

in order to meet the funding shortfall with minimum impact on the Council's overall finances, services and priorities.

- 3.2 Cabinet are asked to recommend to Council that the Capital Programme be amended to accommodate the Southport Cultural Centre, works and fit-out, final out-turns.