

**REPORT TO:** CABINET  
**DATE:** 20 May 2010  
**SUBJECT:** Southport Cultural Centre - Award of the Second Stage Tender  
**WARDS AFFECTED:** SOUTHPORT WARDS  
**REPORT OF:** Alan Moore, Strategic Director (Communities)  
**CONTACT OFFICERS:** Andy Dunsmore, Technical Services (2766)  
**EXEMPT/  
CONFIDENTIAL:** No

**PURPOSE/SUMMARY:**

- 1) To seek Cabinet approval for the award of the Second Stage tender for the construction of the Southport Cultural Centre.
- 2) To provide Members with an update on progress.

**REASON WHY DECISION REQUIRED:**

The recommendations set out below are required in order to meet the timetable set within the grant aiding bodies' terms and conditions. It is essential to make a start of the main contract in May 2010.

**RECOMMENDATION(S):**

1. The Council underwrites a further £400k of funding to the project from the Capital Programme. This funding contribution will be reduced by the amount of any further funding offered to the project from either NWDA or Sea Change or value engineering reductions.
2. On the basis of the two stage tendering exercise completed, it is recommended that the Council enter into a Contract with Bovis Lend Lease for the delivery of the Southport Cultural Centre project for a Target Cost of £11,366,801.
3. That, based upon the Officers advice, Cabinet agrees to waive the requirement for a Performance Bond for Bovis Lend Lease and place reliance upon the parent company guarantee.
4. That the Legal Director be given authority to negotiate new leases with the owners of Cambridge Walks as part of the process of securing consent to the proposed works.

**KEY DECISION: YES**

**FORWARD PLAN: YES**

**IMPLEMENTATION DATE:** Immediately following Cabinet Approval

**ALTERNATIVE OPTIONS:** The course of action set out in this report is essential to meet the stringent deadlines set by the funding agencies. Any delay to the procurement process would seriously impede the Council's chances of defraying sufficient expenditure to claim the full NWDA and Sea Change contributions to the project.  
With no further funding, a further reduction of the scope of the works would be required and this would potentially have an impact upon the potential for delivering the outputs on which the external funding grants are conditioned. A Performance Bond would incur a further cost to the Capita scheme without necessarily providing additional security to the Council's position.

**IMPLICATIONS:**

**Budget/Policy Framework:** The project is in line with corporate and Community Strategy objectives.

**Financial:** financial implications were set out in the report to Cabinet on 12 November 2009. The total approved project cost is £15,300,000, however this report indicates that additional costs totalling £400,000 have been identified as outlined in the report which will fall to be met in the later stages of the scheme.

<b><u>CAPITAL EXPENDITURE</u></b>	<b>2010/ 2011 £</b>	<b>2011/ 2012 £</b>	<b>2012/ 2013 £</b>	<b>2013/ 2014 £</b>
Gross Increase in Capital Expenditure			400k	
Funded by:				
Sefton Capital Resources			400k	
Specific Capital Resources				
<b><u>REVENUE IMPLICATIONS</u></b>				
Gross Increase in Revenue Expenditure				
Funded by:				
Sefton funded Resources				
Funded from External Resources				
Does the External Funding have an expiry date? Y/N	When?			
How will the service be funded post expiry?				

**Legal:** The proposed procurement route is in line with EU requirements.

The Legal Director will be asked to formalise the respective Contracts in accordance with normal procedures.

**Risk Assessment:** The tender appraisal associated includes a project risk assessment. Delay to the overall programme will increase the risk of not being able to claim the full NWDA and Sea Change grants with knock on implications for the Council. An assessment has been completed on Bovis, as preferred contractor and has confirmed 'minimal risk of business failure'.

**Asset Management:** The site is owned by the Council; The Council will retain the freehold of the Centre when the work is completed.

**CONSULTATION UNDERTAKEN/VIEWS**

FD 399: The comments of the Interim Head of Corporate Finance and ICT have been incorporated in this report.

**CORPORATE OBJECTIVE MONITORING:**

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

**LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT**

N/A

## BACKGROUND

### 1. INTRODUCTION

- 1.1. Members will be aware from previous reports of the complexity this project and the wide range of issues that need to be addressed to enable the project to move forward to a successful conclusion.
- 1.2. Members will also be aware that Sea Change and the NWDA (North West Development Agency) contributions each of £4M are conditional on a target spend figure being achieved by the end of March 2011 in order for the grants to be claimed in full. These are the key drivers to the project.
- 1.3. In order to achieve these targets the Project Programme has been carefully considered and a Procurement Strategy developed
- 1.4. Conscious of the tight timescale for delivery of the project, Officers recommended a two stage tender process be adopted for the contract rather than a single stage process. Subsequently first stage tenders were invited, and Cabinet Urgent Business on 21<sup>st</sup> January 2010 approved the appointment of Bovis Lend Lease as the Preferred Contractor for the project.
- 1.5. Bovis Lend Lease have been working with Capita's Design Team to seek prices for a series of packages of work that will make up the main Contract. They have also been engaged in careful planning of the works as well as examining potential options for further cost savings.
- 1.6. Having secured prices for the main packages of work and having established provisional sums for those elements of work which have yet to be designed in detail, the Capita's design Team and Bovis Lend Lease have been able to establish a realistic Target Cost.

### 2. SCHEME FUNDING

- 2.1. In November 2009, Members agreed to the Council accepting a grant offer of £4M from the North West Development Agency for the project, to supplement the £4M already received from the Sea Change programme. Members also agreed to a Council contribution of £7.3M to the project this establishing an overall budget of £15.3M with an actual build cost of £11.7M..
- 2.2. This budget has been established to fund the construction cost, the pre construction survey work, costs associated with acquisition and legal agreement, design fees, relocation cost for staff, artefacts and equipment, marketing and post handover fit out.
- 2.3. It should be stressed that the offer of funding is conditional on a target spend of £8M being achieved between the NWDA approval of the scheme in November 2009 and March 2011.
- 2.4. Council Officers have been working with Bovis Lend lease to ensure that the above target is achievable within the agreed programme as failure to achieve this target could result in the grant received being less than the full NWDA £4M allocation. This is acknowledged as a risk to the project and highlights the need for the Programme to be adhered to and progress to be carefully monitored.
- 2.5. Members are also be aware that a funding application was submitted to the Heritage Lottery Fund in October 2009 for a further £2.8M contribution to the project. The Council has received a response that the HLF Board did not approve the application. However it appears that the HLF are willing to accept a further, 'more focussed' bid at a later Board meeting this year.
- 2.6. From a programming perspective, Capita's Design Team have been working with Council Officers have already undertaken a Value Engineering exercise with the design team with the

aim of reducing the scope and hence the anticipated cost of the works in order for the project not be to be reliant on an HLF contribution. This exercise has been completed in the full knowledge that the Business Plan remains largely unaffected. However, it should be acknowledged that the receipt of any HLF grant would help increase the scope of what the centre may offer, especially within the final fit out of the rooms.

- 2.7. Officers are anticipating meeting with the HLF team within the next few weeks to agree the focus of a second bid. If successful, a formal grant offer is anticipated later in 2010. Officers will need to determine how additional work can be completed without detrimentally affecting progress.

### 3. PROGRESS AND RISKS

- 3.1. Acknowledging the importance of fulfilling the principle requirements of the Funding Partners a programme of relocation, surveys and legal negotiations has been established in order to ensure that start on site can be established in May 2010.
- 3.2. Following approval from Cabinet Urgent Business in November, a specialist arts removal company have successfully removed the various works of art to storage for the duration of the works.
- 3.3. A programme of moves for existing staff has also been initiated using vacant space within other Council buildings.
- 3.4. Asbestos, Drainage, Dimensional and Structural Surveys have also been completed following the closure of much of the centre in December 2009. As some of the critical 'As Built Drawings' from the 1980's extension of the building have not been found, some further intrusive work has been necessary within the vacant shop units with Cambridge Walks. These works have been completed out of normal trading hours to minimise disruption to existing traders.
- 3.5. Members should be aware that agreement is required from the owners of Cambridge Walks, for the works to proceed. Their approval is dependent upon their own independent assessment of the impact of the works upon their property. It is anticipated that this assessment will have been completed and hence the legal documentation progressed by the date of this meeting.
- 3.6. The owners of Cambridge Walks have proposed that the existing leases be renegotiated as part of the process of securing consent. As new space is being created as part of the development it is proposed that the owners surrender the existing leases in place between the Council and the owners and that the Council grant a new 250 year lease of the owners current demise and they simultaneously grant a new 250 year lease to the Council of the existing demise, plus the additional area created as part of the works. The Legal Director will negotiate the respective maintenance liabilities.
- 3.7. An existing tenant within one of the buildings forming the Cultural Centre has signed agreement surrender their lease. They will be able to remain within the building until August as their new premises are not available for occupation. Bovis and Officers are looking carefully at the implications of completing enabling works whilst the tenant remains in occupation.
- 3.8. Officers have also been negotiating with the tenants of shops within Cambridge Arcade. Where works are programmed above existing shop units, tenants have been given the opportunity to be relocated, either permanently or during the works. A further option, i.e. that of a compensatory payment in lieu of the surrender of an existing lease has been offered to one tenant. If the tenant is unwilling to accept the offer of relocation, or a compensation sum can't be agreed, then works within the vicinity of the shop will be programmed to enable the tenant to continue to trade, as per the condition of their lease. It should be noted that the tenant's solicitor has threatened to serve a Court injunction against the Council beginning

work within the vicinity of the shop unit. The Legal Director has engaged specialist advice to protect the Council's position.

#### 4. TARGET COST

4.1. The original budget headings for the various elements of the project are as per the table below. These costs are based on careful assessment of the component parts but will be subject to minor changes as the project develops,

4.2. The table below demonstrates the original budget located to the Main contract was £11.53M

<b>Costs for Base Contract</b>	<b>Total</b>
Main Contract (including 5% contingencies)	11,535,141
Service connection (paid in advance by the Council)	131,251
Client Fit Out (inc IT)	653,000
Acquisition	419,570
Relocation Costs	327,095
Design and administration fee	2,076,194
Other Fees (e.g. planning/other consultants)	88,023
Marketing and Consultation	7,000
Surveys	62,726
<b>Total</b>	<b>15,300,000</b>

4.3. The First Stage Tender exercise with Bovis identified the overheads and profits and preliminary percentages to be applied to the Works Packages. Capita have subsequently recommended a 5% contingency be allocated to the budget.

4.4. Tenders were subsequently invited by Bovis, in partnership with Capita, for the key construction packages to determine an accurate cost. It is acknowledged that there are a number of less significant packages which still need to be subject to formal tendering when these areas of design have been further developed. Consequentially, Capita, in agreement with Bovis, have established realistic provisional sums for these remaining items.

4.5. Bovis Lend Lease and Capita identified, within early April, that the cost of some of the more significant works packages were higher than the estimated cost.

4.6. Discussions with Capita identified this exercise had not realised the level of cost saving anticipated, and that high steel costs, increased level of structural investigation required (to ensure the appropriate consent can be secured) together with a greater degree of asbestos removal resulted in a significant gap between the budget and anticipated works cost.

4.7. Council Officers from the Leisure and Technical services Departments have met with Capita and Bovis to examine in detail the current scope of the works and to identify further Value Engineering savings which have little impact upon the Business Plan or revenue generating

capacity. A schedule of savings has been developed and these have been discussed with the Planning team and with the scheme funders.

- 4.8. In parallel to this exercise Capita and Bovis Lend Lease have held further discussions with suppliers and sub contactors with a view to securing more competitive prices.
- 4.9. Bovis have advised that the provision as a Performance Bond, which is usually requested by the Council for Contracts on excess of £1M will cost approximately £80,000 to initiate. Bovis Lend Lease are able to provide a Parent Company Guarantee in lieu of a Bond. The Head of Corporate Finance and ICT Strategy has completed a financial assessment of the company which indicates a 'minimal risk of business failure'. The Technical Services Director has completed a formal risk assessment, which has concluded that the Parent Company Guarantee should be sufficient to protect the Council's position. Accordingly, it is proposed that the requirement for a Performance Bond be waived for this Contract.
- 4.10. Despite the considerable efforts expended in completing the above exercises Capita have advised that a further funding contribution of approx £400k is required to ensure that the project delivers the appropriate quality of scheme to realise the Business Plan and hence meets the criteria of the funders expectations.
- 4.11. With the above in mind, a number of options have been explored. One option is to reduce the project contingency by £400k, but both Capita and Council officers believe that the 5% Contingency figure should be protected, particularly in light of the age and state of the current building.
- 4.12. A second option, of securing further grant funding, is currently being explored. Both NWDA and Sea Change have agreed to give the matter some consideration.
- 4.13. In light of the above, therefore, it is recommended that, to ensure the project delivers the quality of project to make the Southport Cultural Centre a centre of regional importance, that the Council's underwrites a further contribution of £400k, to be used should no further external NWDA or Sea Change funding be realised but Value Engineering exercise will continue to maximise reductions in line with original expectations. Members should note that this cost will fall to be met in the later stages of the scheme should this be the case (i.e. 2012/13).
- 4.14. Having completed this exercise, the following Target Cost has been established;

Works Packages including Prelims	11,143,922
Overheads and profits	222,879
<b>Target Cost</b>	<b>11,366,801</b>
Contingency (5%)	568,340
Total Anticipated Works cost	11,935,141

## 5. RECOMMENDATION

- 5.1. The Council underwrites a further £400k of funding to the project from the Capital Programme. This funding contribution will be reduced by the amount of any further funding offered to the project from either NWDA or Sea Change or value engineering reductions.

- 5.2. On the basis of the two stage tendering exercise completed, it is recommended that the Council enter into a Contract with Bovis Lend Lease for the delivery of the Southport Cultural Centre project for a Target Cost of £11,366,801.
- 5.3. That, based upon the Officers advice, Cabinet agrees to waive the requirement for a Performance Bond for Bovis Lend Lease and place reliance upon the parent company guarantee.
- 5.4. That the Legal Director be given authority to negotiate new leases with the owners of Cambridge Walks as part of the process of securing consent to the proposed works.