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Contact Officer:

John Armstrong, Democratic Services &  
Elections Manager

17 August 2022

Dear Councillor

Your attendance is requested at a meeting of the **EXECUTIVE** to be held in the Council Chamber, Millmead House, Millmead, Guildford, Surrey GU2 4BB on **THURSDAY, 25 AUGUST 2022** at 7.00 pm.

Yours faithfully

Tom Horwood  
Joint Chief Executive  
Guildford & Waverley  
Borough Councils

**MEMBERS OF THE EXECUTIVE**

Chairman:

Councillor Joss Bigmore ((Leader of the Council))

Vice-Chairman:

Councillor Julia McShane ((Deputy Leader of the Council and Lead Councillor for Community and Housing))

Councillor Tim Anderson, (Lead Councillor for Resources)

Councillor Tom Hunt, (Lead Councillor for Development Management)

Councillor John Redpath, (Lead Councillor for Economy)

Councillor John Rigg, (Lead Councillor for Regeneration)

Councillor James Steel, (Lead Councillor for Environment)

Councillor Cait Taylor, (Lead Councillor for Climate Change)

**WEBCASTING NOTICE**

This meeting will be recorded for live and/or subsequent broadcast on the Council's website in accordance with the Council's capacity in performing a task in the public interest and in line with the Openness of Local Government Bodies Regulations 2014. The whole of the meeting will be recorded, except where there are confidential or exempt items, and the footage will be on the website for six months.

If you have any queries regarding webcasting of meetings, please contact Committee Services.

**QUORUM 3**

## **The Council's Strategic Framework (2021- 2025)**

### **Our Vision:**

A green, thriving town and villages where people have the homes they need, access to quality employment, with strong and safe communities that come together to support those needing help.

### **Our Mission:**

A trusted, efficient, innovative, and transparent Council that listens and responds quickly to the needs of our community.

### **Our Values:**

- We will put the interests of our community first.
- We will listen to the views of residents and be open and accountable in our decision-making.
- We will deliver excellent customer service.
- We will spend money carefully and deliver good value for money services.
- We will put the environment at the heart of our actions and decisions to deliver on our commitment to the climate change emergency.
- We will support the most vulnerable members of our community as we believe that every person matters.
- We will support our local economy.
- We will work constructively with other councils, partners, businesses, and communities to achieve the best outcomes for all.
- We will ensure that our councillors and staff uphold the highest standards of conduct.

### **Our strategic priorities:**

#### Homes and Jobs

- Revive Guildford town centre to unlock its full potential
- Provide and facilitate housing that people can afford
- Create employment opportunities through regeneration
- Support high quality development of strategic sites
- Support our business community and attract new inward investment
- Maximise opportunities for digital infrastructure improvements and smart places technology

#### Environment

- Provide leadership in our own operations by reducing carbon emissions, energy consumption and waste
- Engage with residents and businesses to encourage them to act in more environmentally sustainable ways through their waste, travel, and energy choices
- Work with partners to make travel more sustainable and reduce congestion
- Make every effort to protect and enhance our biodiversity and natural environment.

#### Community

- Tackling inequality in our communities
- Work with communities to support those in need
- Support the unemployed back into the workplace and facilitate opportunities for residents to enhance their skills
- Prevent homelessness and rough-sleeping in the borough

## Agenda

### ITEM NO.

**1 APOLOGIES FOR ABSENCE**

**2 LOCAL CODE OF CONDUCT - DISCLOSABLE PECUNIARY INTEREST**

In accordance with the local Code of Conduct, a councillor is required to disclose at the meeting any disclosable pecuniary interest (DPI) that they may have in respect of any matter for consideration on this agenda. Any councillor with a DPI must not participate in any discussion or vote regarding that matter and they must also withdraw from the meeting immediately before consideration of the matter.

If that DPI has not been registered, the councillor must notify the Monitoring Officer of the details of the DPI within 28 days of the date of the meeting.

Councillors are further invited to disclose any non-pecuniary interest which may be relevant to any matter on this agenda, in the interests of transparency, and to confirm that it will not affect their objectivity in relation to that matter.

**3 MINUTES (Pages 7 - 10)**

To confirm the minutes of the meeting of the Executive held on 21 July 2022.

**4 LEADER'S ANNOUNCEMENTS**

**5 TO CONSIDER ANY RECOMMENDATIONS FROM THE OVERVIEW AND SCRUTINY COMMITTEE (Pages 11 - 18)**

**6 MIDLETON INDUSTRIAL ESTATE REDEVELOPMENT (Pages 19 - 24) \***

**7 WEY HOUSE: PROPOSED SURRENDER OF EXISTING AND RE-GRANT OF A NEW LEASE (Pages 25 - 34) \***

**8 GUILDFORD LIDO DRAINAGE AND MODERNISATION PROJECT (Pages 35 - 46) \***

Key Decisions:

Any item on this agenda that is marked with an asterisk is a key decision. The Council's Constitution defines a key decision as an executive decision which is likely to result in expenditure or savings of at least £200,000 or which is likely to have a significant impact on two or more wards within the Borough.

Under Regulation 9 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, whenever the Executive intends to take a key decision, a document setting out prescribed information about the key decision including:

- the date on which it is to be made,
- details of the decision makers,
- a list of the documents to be submitted to the Executive in relation to the matter,
- how copies of such documents may be obtained

must be available for inspection by the public at the Council offices and on the Council's website at least 28 clear days before the key decision is to be made.

The relevant notice in respect of the key decisions to be taken at this meeting was published as part of the Forward Plan on 28 July 2022.

## Executive

\* Councillor Joss Bigmore (Chairman)  
Councillor Julia McShane (Vice-Chair)

* Councillor Tim Anderson	Councillor John Rigg
Councillor Tom Hunt	Councillor James Steel
* Councillor John Redpath	* Councillor Cait Taylor

\*Present

### EX16. Apologies for Absence

Apologies for absence were received from Councillors Tom Hunt, Julia McShane, John Rigg and James Steel.

Councillors Angela Goodwin and Paul Spooner were in remote attendance.

### EX17. Local Code of Conduct - Disclosable Pecuniary Interest

There were no declarations of interest.

### EX18. Minutes

The minutes of the meeting held on 23 June 2022 were confirmed as correct. The Chairman signed the minutes.

### EX19. Leader's Announcements

The Leader thanked those council officers who had worked hard to support residents and businesses during the recent heatwave. It was noted that refuse workers had started work at 5am and no route had been missed. Praise was also directed to the Fire Service for its swift responses to numerous calls around the borough.

It was announced that the Council Tax Discretionary Energy Rebate had been extended to include properties in bands E, F, G or H. The Council would proactively be contacting eligible residents with information, but residents were advised to check criteria requirements on the Council's website and, if eligible, apply before 12 August 2022.

The Safer Guildford Partnership had updated the Guildford town centre Public Space Protection Order (PSPO). The order gave police and some council officers power to tackle anti-social behaviour. This included confiscating alcohol and legal highs and fines up to £1,000 might be imposed if warnings about anti-social behaviour were ignored.

Saturday 23 July was 'County Flag Day'. Local resident Neil Thompson was thanked for suggesting the Council take part and the Surrey county flag would be flown at various locations.

The re-opening of the galleries at Guildford House was celebrated with two exhibitions. 'Georgian Women, Portraits by John Russell' was open from 16 July until 8 October 2022. Alongside this, 'Fifty Years of Friendship' showcased a selection of artwork

acquired with support from 'The Friends of Guildford House'. This was open from 21 July until 8 October.

'Videogames - Made in Guildford' was Guildford Museum's latest exhibition. The display was open between 2 July and 24 September and gave a snapshot into the thriving videogame sector in Guildford and the local area.

Guildford Castle was to reopen from 27<sup>th</sup> July and it would be possible to climb to the top of the tower for views across the town until the end of October (Wednesday to Saturday).

There had been a memorial service at the Holy Trinity Church on 18<sup>th</sup> July to remember former Mayor Councillor Richard Billington.

Resources Director and s151 officer, Claire Morris would be leaving the Council at the end of July and the Leader paid tribute to her work over the past nine years.

Finally, the Leader was able to confirm that Police had used new powers warded to them through s.60c of the Criminal Justice and Public Order Act 2022 to remove an illegal traveller encampment on Stoke Park.

#### **EX20. To Consider any Recommendations from the Overview and Scrutiny Committee**

The intention of the report was to collate and track progress of all recommendations made by the Overview and Scrutiny Committee to the Executive throughout the year, and to log the Executive decisions on the submitted matters. The Executive agreed the response to the recommendations on 22 March 2022.

The Executive noted the report and that there had been no updates since the previous meeting.

#### **EX21. Annual Governance Statement 2021-22**

The Accounts and Audit Regulations 2015 required the Council to prepare an Annual Governance Statement (AGS) detailing the governance framework and procedures that had operated at the Council during the year; a review of their effectiveness; any significant governance issues that had occurred and a statement of assurance. The draft AGS would be included in the Council's statement of accounts for 2021-22

The Executive considered a report that outlined the background to the AGS; and set out in Appendix 1, the AGS for 2021-22. The Leader of the Council introduced the report and it was explained that action to further develop the Council's governance framework would be implemented where areas for further improvement had been identified.

The Executive was invited to comment on the AGS and make any recommendations, as appropriate, to the Corporate Governance & Standards Committee at its meeting on 28 July 2022.

RESOLVED

To recommend to the Corporate Governance & Standards Committee:

1. That the Committee adopts the Council's Annual Governance Statement for 2021-22, as set out in Appendix 1 to this report, and publishes the Annual Governance Statement alongside the adopted statement of accounts for 2021-22.
2. That the Committee approves the self-assessment of the Council's compliance with the CIPFA financial management code reported at Appendix 2.

Reason for Recommendation:

To comply with the Accounts and Audit Regulations 2015, the Council must

The meeting finished at 7.12 pm

Signed .....

Date .....

Chairman

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## Recommendations to the Executive from the Overview and Scrutiny Committee

### Document Purpose

The intention of this document is to collate and track progress of all recommendations made by the Overview and Scrutiny Committee to the Executive throughout the year, and to log the Executive decisions on the submitted matters. The Executive's agreed response to the recommendations will be fed back to the Overview and Scrutiny Committee, and relevant officers.

### Explanatory note:

**Progress Status:** This column indicates individual progress status for each recommendation and will present one of three options:

- Awaiting Executive Consideration
- Accepted or Approved by the Executive
- Rejected by the Executive

**Suggested Response to Recommendation and Reasons:** This column indicates what action, if any, the Executive proposes to take or may already have been taken in response to the recommendation and the reasons) for the action, or no action.

### Approved Recommendations:

O&S Meeting Date /O&S Minute No.	O&S Agenda Item	O&S Recommendation	Considered by Executive on	Progress Status	Suggested Response to Recommendation and Reasons	Key Officer responsible for the item
2 March 2021 Reference OS63	Guildford Crematorium Redevelopment	That the Executive be requested to ensure that:	22 March 2022	Executive approved suggested response.	The Future Guildford Programme implemented the Council's transformation plan.	Abi Lewis/ Directors

O&S Meeting Date /O&S Minute No.	O&S Agenda Item	O&S Recommendation	Considered by Executive on	Progress Status	Suggested Response to Recommendation and Reasons	Key Officer responsible for the item
	Post Project Review	<p>1.Council projects are accurately scoped and well-defined at the outset and any extension of scope is assessed carefully.</p> <p>2.Council projects go beyond legal minimum standards and aspire to be the best possible.</p> <p>3.Senior officers be held accountable for ensuring that resources in place for projects are adequate.</p>			<p>As part of Phase A of the Programme, a new Project and Performance Management (PPM) Governance team was established in 2020 which has undertaken extensive work to implement a new PPM Governance Framework to improve the delivery of all GBC projects and programmes to achieve the strategic objectives set out in the Corporate and Local Plans. Now an Enterprise Portfolio Structure has been defined, work is underway to rationalise boards and clarify decision-making.</p> <p>The following specific processes implemented help to ensure the right project controls are in place from the outset:</p> <ul style="list-style-type: none"> <li>• A start-up process to control the number of projects initiated</li> <li>• A mandate being developed for each project for consideration by service leaders and Councillors helping to develop a common understanding of</li> </ul>	

O&S Meeting Date /O&S Minute No.	O&S Agenda Item	O&S Recommendation	Considered by Executive on	Progress Status	Suggested Response to Recommendation and Reasons	Key Officer responsible for the item
					<p>objectives and anticipated outcomes of projects.</p> <ul style="list-style-type: none"> <li>• The Business Case, developed from the Strategic, through the Outline Business Case and confirmed at Full Business Case is a clear statement of scope and baselines and a robust rationale for proceeding with the project.</li> <li>• Progress through the stages is controlled by gates, these are managed by the Corporate Governance Team.</li> </ul> <p>The project mandate will provide a broad definition of a project’s objectives, scope, constraints, benefits, risks and costs – which are further defined in the development of the business case. Aspirations to exceed minimum standards tends to come at the cost of time and money. The business case should recommend the option that provides best social value or best value for money and responds to any statutory requirements.</p>	

O&S Meeting Date /O&S Minute No.	O&S Agenda Item	O&S Recommendation	Considered by Executive on	Progress Status	Suggested Response to Recommendation and Reasons	Key Officer responsible for the item
					<p>The new PPM Governance Framework provides the opportunity for officers across the organisation to review project mandates and business cases, and to consider the potential impact of the proposals on their service area. This includes consideration of whether the project is achievable within the existing resources (financial and staffing) and whether mitigation is required to deliver the preferred option successfully. This might include highlighting a need to recruit to fill a specialist skillset that is necessary for the project and the required budget to enable this. The internal project governance structures ensure officers provide regular updates on the status of projects and provide the opportunity for risks and issues to be escalated to senior decision makers as necessary. An Enterprise Portfolio Board is being considered to ensure that resource constraints are understood across all GBC service areas before a project is initiated.</p>	

O&S Meeting Date /O&S Minute No.	O&S Agenda Item	O&S Recommendation	Considered by Executive on	Progress Status	Suggested Response to Recommendation and Reasons	Key Officer responsible for the item
9 November 2021 reference OS46	Guildford Crematorium Air Quality Audit	<p>That the following recommendations within section 3 of the SLR audit at Appendix 1 of the report submitted to the O&amp;S Committee be endorsed:</p> <ul style="list-style-type: none"> <li>• That measures or procedures are reviewed and where necessary improved, to allow Regulatory Services to satisfy themselves that work undertaken on their behalf has been undertaken in a comprehensive and technically robust manner, such as:</li> <li>• requiring evidence of the audit procedure, and documented audit trail; and</li> </ul>	22 March 2022	Executive approved suggested response.	<p>GBC's current Standard Selection Questionnaire (SSQ) - used at the outset of a procurement process to determine compliance of a potential supplier with any mandatory requirements - does not request confirmation of statutory or regulatory certification.</p> <p>However, the subsequent technical evaluation process is tailored according to the specifics of the project and the scope of services being procured. Where appropriate, confirmation and evidence of accreditation will be requested and evaluated. If works are procured via a framework e.g. construction works, the contractors are subject to significant scrutiny and vetting before being accepted onto the framework. If a project is particularly complex or technical, the Council will need to consider what specialist resource is needed to support the drafting of technical evaluation criteria</p>	Abi Lewis/ Directors

O&S Meeting Date /O&S Minute No.	O&S Agenda Item	O&S Recommendation	Considered by Executive on	Progress Status	Suggested Response to Recommendation and Reasons	Key Officer responsible for the item
		<ul style="list-style-type: none"> <li>requiring contractors to have a quality assurance system certified to a recognised standard (e.g., ISO 9001).</li> </ul>			<p>and the evaluation of tender responses. This would be established at the mandate stage.</p> <p>The Corporate Procurement Board acts as a gateway for projects that are above a certain financial threshold, or constitute high risk or sensitivity, providing further scrutiny over the most appropriate route to engage a supplier.</p> <p>The new project management and governance toolset, Verto, has the functionality to capture decisions made to ensure that there is an audit trail throughout the project lifecycle.</p>	
9 November 2021 reference OS47	Update on Project & Programme Management Governance	<ul style="list-style-type: none"> <li>That the Executive be requested to ensure that in relation to the closure and evaluation stages of Council projects the author of both the lessons learned report</li> </ul>	22 March 2022	Executive approved suggested response.	The Council's implemented PPM Governance Framework outlines the project lifecycle and approval gates that projects will ensure all lifecycle stages are undertaken for all projects, including closure, evaluation and lessons learned.	Abi Lewis/ Directors

O&S Meeting Date /O&S Minute No.	O&S Agenda Item	O&S Recommendation	Considered by Executive on	Progress Status	Suggested Response to Recommendation and Reasons	Key Officer responsible for the item
		<p>and the post-project evaluation be someone unconnected to the project.</p> <ul style="list-style-type: none"> <li>• That further training and information on the Council's project and programme management be organised for Councillors.</li> </ul>			<p>Going forward the governance team can provide independent review at project closure stage and report to the Enterprise Portfolio Board if that is established.</p> <p>A series of formal training sessions explaining the reasons for mandates and business cases was delivered in November 2020 to introduce the new PPM governance arrangements. Follow up sessions relating to improving their understanding of programme and project governance in order to streamline governance and improve reporting were held for Councillors in December 2021. These sessions outlined the work done on the development of the governance structure and provided a demonstration of the reporting deck that is presented at Major Projects Portfolio Board. Ongoing training is being provided to induct new</p>	

O&S Meeting Date /O&S Minute No.	O&S Agenda Item	O&S Recommendation	Considered by Executive on	Progress Status	Suggested Response to Recommendation and Reasons	Key Officer responsible for the item
					Councillors and keep all Councillors up to date with developments.	



## Executive Report

Ward(s) affected: Onslow

Report of Strategic Director - Place

Author: Darren Burgess, Building Surveyor Manager

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Lead Councillor responsible: Tim Anderson

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Date: 25 August 2022

# Midleton Industrial Estate Redevelopment

## Executive Summary

The Midleton Industrial Estate comprises approx. 5.7 acres within the Council's freehold ownership and the Executive approved a business case for its redevelopment on 24 January 2017.

The Estate was divided in accordance with the long leaseholds previously granted but Officers have been pursuing a phased development of the Estate in line with when existing leases have expired.

This report outlines progress with the delivery of the project, including the current spend and the works completed to date as well as the remaining scope of works to be delivered during 2022-23. The Executive is asked to approve the transfer of £5,557,000 from the provisional capital programme to the approved capital programme in order to complete the fourth and final phase of the redevelopment.

## Recommendation to Executive

1. To ratify the urgency decision of the Director of Resources that the sum of £5.557 million be transferred from the provisional capital programme to the approved capital programme to enable the completion of the design and construction of phase four of the Midleton Industrial Estate redevelopment, as detailed in this report.
2. That the Strategic Director - Place be delegated authority, in consultation with the Executive Member for Resources, to enter into such contracts as are necessary to enable the transactions to be completed within the allocated budget.

## Reason(s) for Recommendation:

To complete the redevelopment of Midleton Industrial Estate, to enhance both the capital value and rental income of the Council's property holding.

**Is the report (or part of it) exempt from publication?**

No

**1. Purpose of Report**

- 1.1 The purpose of this report is to provide the Executive with an update of the Midleton Industrial Estate redevelopment programme carried out so far (phases 1 to 3), and to seek approval for transfer of the necessary funds to continue to progress and deliver phase 4 of the project.

**2. Strategic Priorities**

- 2.1 The recommendations support the delivery of the Corporate Plan 2018-23 which list the following priority under Innovation:

“Redevelop Midleton Industrial Estate to provide modern units equipped with the latest technology for new and expanding businesses.”

**3. Background**

- 3.1 In accordance with the Council’s Asset Management Framework, the Council continues proactively to look at opportunities to enhance both the capital value and rental income of the Council’s property assets.
- 3.2 Midleton Industrial Estate lies adjacent to Guildford Business Park and was determined to have significant potential for redevelopment.
- 3.3 The entire Midleton Industrial Estate comprises around 5.7 acres. The Estate was divided in accordance with the long leaseholds previously granted. The units were typically 1970s warehouses of steel portal frame construction approaching the end of their economic life. A strategy has been implemented to either buy back units that were let on long leaseholds or to not renew leases that were ending to enable redevelopment for continued industrial use.

**4. Current Position**

4.1 Phase 1

Since the last report in November 2019, this phase of work to construct a pair of 416 sq.m units have been completed. Whilst that work was delayed as a consequence of the Covid pandemic, Practical Completion was achieved on 11-Mar-21 and both units were occupied by a single tenant soon afterwards.

We have recently completed the End of Defects Period inspection and following the rectification of a few minor issues, this part of the project has been drawn to a close.

4.2 Phases 2 and 3

These phases of work comprised the construction of 15 individual units ranging in size from approximately 84 sq.m to 520 sq.m on what were plots 12-15 of the original estate.

Open tenders were invited for the construction of these phases of work in mid-2020 and the contract was awarded to Amiri Construction Ltd for the sum of £5.72m. Work began on site in March 2021 and again following pandemic related delays, completed on 18-Feb-22.

At the present time, six of the units have been let and a further seven are in the process of being so.

#### 4.3 Phase 4

The final phase of the development aims to provide 20 individual units ranging in size from approximately 50sq.m to 75 sq.m on what were plots 3-5 and 9 of the original estate.

Open tenders were invited for the construction of this phase of work in mid-2021 and the contract was awarded to Francis Construction Ltd for the sum of £4.25m. Work began on site in May 2022 and is anticipated to complete in May 2023.

### **5. Key Risks**

- 5.1 At this stage in the project, most of the obvious significant risks (planning permission, the value tender returns, Network Rail, etc.) have already been resolved. What remains are those associated with most large construction projects. In this particular case they include site conditions as we're working on the most difficult part of the estate, and the cost and sourcing of materials. The latter has become more acute both since the pandemic and as a consequence of the situation in Ukraine.

As has been the case throughout the project, a risk register is maintained for this phase of work and kept under constant review at formal contract meetings. As the contract is a design and build arrangement, much of the risk sits with the contractor but as a responsible client we work with them to resolve issues wherever possible.

### **6. Financial Implications**

- 6.1 This redevelopment project began with a provisional capital budget of £14,907,000 and the transfer of £9,350,000 has previously been approved to enable the delivery of the first three phases of work. The transfer request for the balance of the provisional budget that is the subject of this report will enable the final phase of work and the project overall to be similarly completed.
- 6.2 The tender for the final phase works was returned in the sum of £4.25m, which was within the anticipated cost. However, the wider project cost includes professional and statutory fees of approximately £285k, and utilities costs of around £240k, bringing the currently anticipated total for this phase to approx. £4.78m.
- 6.3 The remainder of the budget will be used to fund the retentions held on the previous phases of construction of approx. £115k, fees associated with the initial marketing and letting activities of the completed units and to provide a contingency sum to cover unforeseen works. As this final phase of work is taking place on the most complex part of the estate, it has proved difficult to anticipate

every possible obstacle to progress. However, it is still expected that the project overall will complete comfortably within the original budget.

6.4 The breakdown is therefore as follows:

Tendered works	£4,250,000
Professional and Statutory Fees	£285,000
Utilities	£240,000
Retentions	£115,000
Marketing, Letting fees and Contingency	£667,000
<hr/>	
Total	£5,557,000

## **7. Legal Implications**

7.1 Section 2(1) of the Local Authorities (Land) Act 1963 permits a local authority for the benefit or improvement of their area, to erect any building and construct or carry out works on land.

7.2 An urgency decision was taken by the Director of Resources in consultation with the Chair of Overview & Scrutiny Committee to enable the Council to enter into the Phase 4 contract and to approve the transfer from the provisional capital programme to the approved capital programme.

## **8. Human Resource Implications**

8.1 No HR implications apply.

## **9. Equality and Diversity Implications**

9.1 This duty has been considered in the context of this report and it has been concluded that there are no equality and diversity implications arising directly from this report.

## **10. Climate Change/Sustainability Implications**

10.1 All phases of this redevelopment have been designed and constructed to exceed current minimum energy efficiency standards. The exact amount varies depending upon the individual unit, but each is typically 25-35% more efficient than required by the Building Regulations. This has been achieved by the careful selection of modern materials together with the inclusion of solar PV panels on the roof of every unit.

In addition to the above, the development includes rainwater attenuation tanks to mitigate the possibility of flooding and, when complete, will provide 35 electric vehicle charging points, 31 of which will be publicly accessible.

**11. Conclusion**

- 11.1 The redevelopment of the Midleton Industrial Estate is creating a more secure asset and investment for the Council by providing much needed industrial stock. It is encouraging new businesses into the area and allowing existing businesses the room to grow. It is therefore officers' recommendation to transfer the budget required from the provisional capital programme to the approved capital programme to enable continued delivery of the project.

**12. Background Papers**

Equalities Impact Assessment.

**13. Appendices**

None.

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Executive Report

Ward(s) affected: Friary St. Nicolas Ward

Report of Director of Strategic Services

Author: Vince Sibley, Assets & Property Manager

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Lead Councillor responsible: Tim Anderson

Tel: 07710 328560

Email: tim.anderson@guildford.gov.uk

Date: 25 August 2022

## **Wey House: Proposed surrender of existing and re-grant of a new lease**

### **Executive Summary**

Wey House, Park Street is a prominent office building providing 45,382 sq. ft. of accommodation (net internal area excluding communal space) spread over four floors located in the heart of the town centre on the gyratory opposite Guildford's mainline station. The building is let in its entirety as the HQ premises for Stevens & Bolton LLP who are an established legal firm. The central location is very convenient for office staff with easy access from all public transport links and nearby car parking.

The property was purchased by the Council as an investment asset in 2016 for £22.65 million and is the biggest single income producing property asset within the Council's portfolio. The outcome of the Asset Management Plan recommended retention due to its significant income return, strong tenant covenant and minimal management costs.

The property is held on a lease dated 3 March 2010 which expires on 2 March 2027. The tenant holds an Option for a Reversionary Lease for a term of 10 years from 3 March 2027 subject to a tenant only break clause on 3 March 2032. Stevens & Bolton pay a rent of £1.3 million per annum which is due for review in March 2025. The lease is inside part II of the Landlord & Tenant Act 1954 and therefore provides the tenant with security of tenure upon expiry. Recent agreement has been reached for the top two floors of the building to be sub-let to Media Molecule (a gaming company owned by Sony Corporation).

The tenant approached the Council with a proposal to remain in the building beyond the expiry date of the current lease in March 2027 subject to upgrading the heating and air conditioning system along with installation of Cat A low energy LED lighting

throughout the building being carried out at the Council's cost. The cost of these works is estimated to be £800,000. As a result, officers have agreed terms with the tenant to surrender the current lease and enter into a new lease for a term of 15 years without break at a rental income of £1.3 million per annum subject to a 12 month rent free period, upwards only rent reviews in March 2025 and 5 yearly thereafter, and a landlord's contribution to tenant works up to a maximum of £800,000.

Officers recommend proceeding with the surrender of the existing lease and regrant of a new lease as outlined above. This will secure the current rental income of £1.3 million per annum for 15 years, with a 12 month rent free period from completion and will be of considerable financial advantage to the Council. It will ensure a minimum annual rental income of £1.3 million for the additional 10 years beyond the unexpired lease term. It will also avoid the risk of the building falling vacant on lease expiry in less than 5 years' time at which point the Council would be highly likely to incur a considerably higher level of capital expenditure to refurbish ahead of securing a new tenant, compared to the £800,000 landlord's capital contribution proposed in the terms for the surrender and regrant. Officers recommend funding the £800,000 capital contribution from the Property Acquisitions budget in the approved capital programme.

The terms of the proposal include a 12 month rent-free period spread over 24 months. In effect, 50% of the rent i.e., £650,000 is received for the first two years of the lease and £1.3 million per annum is received from year three onwards. However, in accounting terms the rent free is spread over the full term of the lease therefore the projected rental income on the Council's balance sheet will re-profile to £1.213 million per annum over 15 years.

### **Recommendation to Executive**

The Executive is asked to approve

- 1) the surrender of the existing lease to Stevens & Bolton and a simultaneous regrant of a new 15-year lease with no break clause at the current passing rent of £1.3 million per annum subject to an upwards only rent review in 2025 and 5 yearly thereafter with 50% reduced rent over first two years
- 2) that the Head of Asset Management (Climate Change Lead) be authorised to take such actions as are required to negotiate any minor amendments and finalise terms referred to in this report for the surrender and regrant of a lease to Stevens & Bolton subject to being satisfied that the Council will receive the best consideration reasonably obtainable and in consultation with the Lead Councillor for Resources, the Joint Strategic Director (Place) and the Joint Executive Head of Service for Finance.
- 3) the spending of the approved Property Acquisitions budget to fund a landlord's capital contribution towards tenant improvement works



**Reason for recommendation**

This recommendation is being made to the Executive to secure the rental income of £1.3 million per annum for a further 10 years beyond the expiry of the existing lease in place and which will be subject to upwards only rent reviews in 2025 and 5 yearly thereafter. Thus, it will remove the risk of the building falling vacant in 2027 when the current lease expires, and the likely significant level of investment required to refurbish the building (estimated at £5 million) to attract a new tenant. It is therefore considered the most financially advantageous option to the Council and will improve the investment performance of the asset for the next 15 years.

**Is the report (or part of it) exempt from publication? No**

**1. Purpose of Report**

- 1.1 The purpose of the report is to ask the Executive to approve the recommendation to surrender the lease currently in place with the Council's tenant of Wey House, Stevens & Bolton, and to simultaneously grant a new 15-year lease on the terms outlined in this report.
- 1.2 The report explains that approval of the proposal will secure a continuation of the current rental income to the Council of £1.3 million per annum for 15 years without break and thus avoid the risk of the building falling vacant on expiry of the current lease in 5 years' time. Were the latter to occur, the asset would require a considerably higher level of capital expenditure to refurbish ahead of securing a new tenant compared to the £800,000 capital expenditure proposed as part of the surrender and regrant.
- 1.3 The report also explains the impact of the new lease on budget. In line with the CIPFA Accounting Code of Practice the Council must project rental income in the financial accounts on a straight-line basis over the life of a lease. For this asset, the current projected income for 2022/23 is £1.3 million. By securing the longer lease and giving a 12-month rent free, the annual income to the revenue account will be £1.213 million per annum for 15 years.

**2. Strategic Priorities**

- 2.1 A well-managed, income producing property investment portfolio supports all the fundamental themes of the Corporate Plan and the Council's strategic priorities as follows:

*We will ensure Guildford is a place where business can thrive... Access to high quality housing and jobs is crucial to the health and wellbeing of our communities.*

*We will work with our business community and Business Improvement District to ensure our local economy remains competitive and will actively seek new inward investment.... We will support these dynamic businesses, which are critical to our economic recovery and renewal.*

### **Our Values**

- We will support our local economy

**Homes & Jobs** *Residents having access to the homes and jobs they need*

- Support our business community and attract new inward investment
- Create employment opportunities through regeneration

**Environment** *Protecting our environment*

- Engage with businesses to encourage them to act in more environmentally sustainable ways.

## **3. Background**

- 3.1 Stevens & Bolton currently occupy Wey House via a lease due to expire in March 2027. The current rent is £1.3 million per annum which is due for review in March 2025. The tenancy contains an Option for a Reversionary Lease for a term of 10 years from 3 March 2027, which includes provision for the tenant only to break the lease on 3 March 2032.
- 3.2 Covenants within the existing lease require the tenant to maintain and repair the current air conditioning and heating plant and lighting systems. However, this equipment is nearing the end of its economic life. Were the tenant to vacate the premises on lease expiry in five years' time, this equipment would require upgrading. The replacement cost would fall to the Council (less any payment received for dilapidations).
- 3.3 Council officers were approached by the tenant to explore the opportunity of remaining in occupation of the building beyond the expiry date of the current lease in March 2027 subject to upgrading the heating and air conditioning system along with an upgrade to Cat A low energy LED lighting throughout the building being carried out at the Council's cost. These works have been estimated at £800,000.
- 3.4 Officers have agreed terms to surrender the current lease and grant a new lease for a term of 15 years without a break clause, which will add a further 10 years certain to the current lease term. The initial rent will remain the same as existing (£1.3 million per annum) subject to upwards only rent reviews in March 2025 and 5 yearly thereafter. The terms include a 12 months' rent-free period split over the first 2 years of the lease. This level of rent-free incentive is reflective of the current market for

- similar quality buildings available within the locality and similar quality of tenant covenant.
- 3.5 The terms include for the Council to meet the capital cost of the upgrade works up to a maximum of £800,000. By securing a new lease with the current tenant accepting a landlord's capital contribution, this would reduce the risk of the Council having to replace the equipment itself at what is likely to be a greater cost than £800,000 in less than five years' time were the property to then fall vacant.
- 3.6 If the Council were to forego this opportunity and do nothing, it runs the risk of the tenant vacating at lease end in less than 5 years from now when the Council would have to not only meet the cost of upgrading the heating and ventilation system and the LED lighting (£800,000) but would likely have to invest considerably more capital to refurbish the building (estimated cost £5 million) to an improved standard to attract a new tenant. A rental incentive of 12 months for a 10-year term of lease would similarly likely need to be offered as an incentive. Officers commissioned capital valuations for the two scenarios; that is, the lease expiring in 5 years and the tenant vacating, expenditure required to refurb etc. versus proceeding with the surrender and re-grant of the new lease with proposed incentives. The valuations demonstrated the recommended option to be of considerably greater value to the Council and therefore the terms of the proposal are considered to satisfy the Council's requirement to achieve best consideration reasonably obtainable, thereby satisfying the requirements of section 123 of the Local Government Act 1972.
- 3.7 The recent sub-letting of the upper two floors of the building to Sony-owned, Media Molecule, should also be noted. This offers the benefit of another occupant with a strong covenant. The proposed improvements to the building's specification assisted in securing the sub-tenant's occupation.
- 3.8 Upon satisfactory completion of the improvement works, the Council will be required to pay the cost of the works, not exceeding £800,000 plus VAT. The new lease will define these works as Landlord's improvements, thereby allowing these to be taken into account at the next (upwards only) rent review on 3 March 2025 and 5 yearly thereafter. Officers recommend funding the £800,000 capital contribution from the Property Acquisitions budget in the approved capital programme.

#### **4. Consultations**

- 4.1 The Lead Councillor for Resources has been consulted and supports the recommendations.
- 4.2 The Ward Members will be consulted.

## **5. Key Risks**

- 5.1 There are three main risks identified, as follows:
- 1) Failure of the proposed works to achieve desired improvements to regulate temperatures within the office and to improve energy consumption via led lighting.
  - 2) Failure of the Contractor to complete the works as per the specification.
  - 3) Failure of the tenant's business.
- 5.2 Risks 1) and 2) will be mitigated via collateral warranties to be provided to the Council that will extend to the design team and contractor in the event of either outcomes. The Council will only be responsible for payment of the £800,000 plus VAT once it has been confirmed by the Council's building surveyor that the works have been carried out to a satisfactory standard and practical completion has been reached.
- 5.3 Stevens & Bolton is an established Legal 500 firm of circa 150 lawyers with a financial summary for 2021 that demonstrates a gross profit of £7.35 million. Whilst it is not possible to guarantee the performance of a tenant over a term of 15 years, as at today the tenant's business health appears strong.

## **6. Financial Implications**

- 6.1 A capital sum of £800,000 is to be payable by the Council on practical completion of the works (proposed to be funded from the Property Acquisitions Budget on the approved capital programme).
- 6.2 A building surveyor will need to be appointed by the Council to monitor the works and attend site meetings during progress to ensure they are being carried out to the agreed specification and programme. Officers anticipate this work can be absorbed in-house. Officers will seek advice from a Quantity Surveyor (QS) to verify accuracy of the cost breakdown for the works proposed prior to proceeding - this will require the appointment of an external consultant at a cost which should not exceed £5,000. The tenant has agreed to contribute a sum of £5,000 towards the Council's costs in the matter.
- 6.3 A rent-free incentive of 12 months has been proposed. The CIPFA Accounting Code of Practice states that income from leases has to be spread over the life of the lease. The proposed rental terms mean the projected income will re-profile to £1.213 million per annum, thereby limiting the impact of the rent free period on the General Fund.

## **7.1 Legal Implications**

- 7.1 Officers have consulted with the Council's in-house legal team on the preparation of the necessary agreements, lease and licence for alterations required. The legal team have been informed that completion of the agreements is required by 25 August, subject to Executive approval, and are working to this timetable but this is subject to agreement of the documentation by the Tenant.
- 7.2 Local authorities are given general powers under the Local Government Act 1972, to dispose of land in any manner they wish, including sale of their freehold interest, granting a lease or assigning any unexpired term on a lease, and the granting of easements, subject to certain legal constraints. A disposal such as the lease proposed in this report must be for the best consideration reasonably obtainable, as set out in section 123 Local Government Act 1972, unless the Secretary of State consents to the disposal.
- 7.3 It is confirmed at paragraph 3.6 of this report that the rent negotiated is the best consideration reasonably obtainable, thereby satisfying the requirements of section 123 of the Local Government Act 1972.
- 7.4 Where a lease is granted within the security of tenure provisions of Part II of the Landlord and Tenant Act 1954, a landlord may only bring the lease to an end at the end of the term by serving a section 25 notice on very limited statutory grounds. Security of tenure also means that at the end of the term, the tenant will be able to hold over on the terms of the lease regardless of expiry of the term granted and they will have the right to call for a new lease on similar terms except, broadly, as to rent and the landlord will be obliged to renew the lease. Therefore, the Tenant could request a new lease at the end of the lease term.
- 7.5 In order to grant a new Lease during the term of an existing Lease, the existing Lease must be surrendered. The surrender can take place in a number of ways, whether implied or express, and the recommendation is that a formal Deed of Surrender is entered into along with a surrender of the option for a further lease.

## **8. Human Resource Implications**

- 8.1 No HR implications apply.

## **9. Equality and Diversity Implications**

- 9.1 This duty has been considered in the context of this report and it has been concluded that there are no equality and diversity implications arising directly from this report.

## **10. Climate Change/Sustainability Implications**

- 10.1 From April 2018, landlords of buildings with the scope of the Minimum Energy Efficiency Standards (MEES) Regulations are prohibited from renewing existing tenancies or granting new tenancies where the building has less than the minimum energy efficiency (EPC) rating of E. This will apply to all existing leases from April 2023 and increasing to a D rating from April 2025 and thereafter C with effect from April 2027. The proposed works to upgrade the air conditioning plant and to install low energy LED lighting to the building are likely to assist in improving the building's energy efficiency from its current rating of D, reduce carbon emissions and thereby futureproof the ability for the asset to remain in occupation. No Environmental Impact Assessment has been undertaken, however.

## **11. Summary of Options**

- 11.1 These are as follows;

- a) Do nothing and wait for the current lease to expire in March 2027. This will expose the Council to the risk of the tenant vacating on expiry at which point the Council is likely to have to carry out the upgrade works being proposed and, in addition, likely to have to undertake a full refurbishment (estimated cost of £5 million) to attract a new tenant, with the loss of income during the works programme and marketing period whilst the building remains empty.
- b) Proceed with the lease surrender and simultaneous grant of a new 15-year lease thereby securing the rental income (currently £1.3 million per annum) for an additional 10 years subject to meeting a capital contribution requirement of £800,000 and a rent-free incentive of £1.3 million.

## **12. Conclusion**

- 12.1 If the Council chooses to do nothing and allow the current lease to Stevens & Bolton to run until expiry in March 2027, it will receive a further £1.3 million per annum rental income (this may increase at rent review which is upward only in 2025) until expiry (circa £6 million in total). At this point, there would be a very real risk of the building becoming vacant. Having regard to its age, fit out and most of the mechanical and electrical equipment nearing the end of its economic life, it is likely that a refurbishment will need to be carried out to attract a new tenant. This could cost in the order of £5 million. Plus, a void period for marketing as

well as a rent-free incentive of circa 12 months (for a 10-year term of lease) would likely need to be allowed for to secure a tenant of good covenant.

- 12.2 Whereas, if the Council proceeds with a surrender of the existing lease to Stevens & Bolton and a simultaneous grant of a new 15-year lease without break adding an additional 10 years to the current term, the Council would then expect to receive a minimum of circa £19 million in rental income (this may increase at rent reviews which are upward only in 2025, 2030 & 2035).
- 12.3 In return the Council would be required to meet the capital expenditure costs of improvement works (which will not exceed £800,000 plus VAT) and make allowance for one year's rent free (totalling £1.3 million) to be accounted for in the budget over the life of the new lease.
- 12.4 Officers recommend proceeding with the surrender of the existing lease which has only 5 years to expiry and entering into a new lease with a 15-year term without break to secure the rental income for an additional 10 years. This is viewed as being the most financially advantageous option.

**14. Background Papers**

None.

**15. Appendices**

None.

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Executive Report

Ward(s) affected: All

Report of Director for Transformation and Governance

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Date: 25 August 2022

## **Guildford Lido Drainage and Modernisation Project**

### **Executive Summary**

Guildford Lido is a popular, high profile site within Stoke Park. It was built in the 1930s and has a 50 metre open air swimming pool set in 6 acres of grounds. A survey has identified that the original drainage has failed and needs to be replaced. In order to access the drainage significant, consequential demolition is required. This presents an opportunity to update and modernise the changing, toilet and shower space at the Lido.

The works are to demolish the existing external changing rooms, WCs, and showers, break out the existing concrete slab and excavate and replace failed drainage. New foundations and slab to be cast. A new glulam timber frame and canopy to be erected with standing seam metal roof and clay tiles to cupolas. New changing facilities, WCs, and showers to be provided beneath canopy structure. The scheme also includes space for a new poolside refreshment kiosk and additional storage for the current operator, Freedom Leisure.

The proposed improvements include:

- Larger toilet cubicles and changing cubicles to meet current standards.
- Two accessible ambulant disabled toilet, shower, and wash hand basin.
- Increased toilet (five additional) and vanity (eight additional wash hand basins) provision.
- Increased shower facilities with four individual cubicles available.
- 12 family change cubicles.
- Better canopy coverage.
- Easier facilities to clean and maintain.

- Better ventilation and more natural lighting.
- Low energy LED lighting with smart controls.
- Water saving percussion operated showers, sensor taps, and dual flush cisterns.
- Better storage facilities for the operator and a larger poolside refreshment kiosk.

The scheme has been subject to an open tender process and nine tenders were received. The tenders were all significantly over budget. In order for the scheme to go ahead, a virement of £600,000 is required from the capital contingency to supplement the use of £1.5m from the ear-marked Leisure Partnership Reserve.

### **Recommendation to the Executive**

To approve a virement of £600,000 from the capital contingency fund for the Lido Drainage and Modernisation Project to enable the project to start on time and hopefully be completed during the winter period to ensure the minimum disruption to the potential customers of the venue.

#### Reason for Recommendation:

The Lido cannot operate without satisfactory drainage, it is recognised that replacement of the failed below ground drainage is not practicable without the corresponding demolition of the changing facilities and breaking out of the existing concrete floor slab that sit directly above. The external changing facilities are beyond their economical and useful life expectancy. The existing facilities fall short of expected modern standards, which can be addressed as part of the process.

**Is the report (or part of it) exempt from publication? No**

## **1. Purpose of Report**

- 1.1 This report asks the Executive to approve a virement from the capital contingency fund for the Lido Drainage Project to enable the project to start on time and hopefully be completed during the winter period to ensure the minimum disruption to the potential customers of the venue.

## **2. Strategic Priorities**

- 2.1 The provision of the services detailed within this report support the Corporate Plan in respect of the Community theme in enhancing sporting, leisure, cultural, community and recreational facilities:

- By attracting visitors to the borough and making Guildford a more attractive place to live in. The venue offers a range of employment opportunities and facilities that businesses need.

- Through providing an enhanced leisure offer in an attractive, vibrant town.
- Through promoting physical activities and contributing to public health.

### **3. Background**

- 3.1 Guildford Lido is a popular, high profile site within Stoke Park. It was built in the 1930s and is widely regarded as a hidden gem. The site has a 50 metre open air swimming pool set in 6 acres of grounds, which is open throughout the summer period (late April to September) and has recently offered restricted winter swimming the rest of the year. On a busy day the site will attract around 2,500 visitors, there is also a small specialist gym operating from the site. Attendance is typically around 80,000 visits per year however this is weather dependent and on a busy year will be significantly over this.
- 3.2 The venue is one of the three sites operated by Freedom Leisure on behalf of Guildford Borough Council under the Leisure Partnership Agreement (LPA). The drainage system and any consequential damage incurred during its repair/replacement is the Council's responsibility under the Leisure Partnership Agreement.
- 3.3 As part of the venue management plan, a drainage survey was commissioned by Asset Management in 2019 to assess the quality and condition of the system. The survey indicated the system had completely failed. The failed drainage is the originally installed system and requires essential replacement for the venue to remain operational.
- 3.4 The required works were split into two phases:
- 3.4.1 Phase one represented the work that could be done on site without significant upheaval and was completed during the winter season of 2020/21 these works were funded through revenue maintenance and were designed to facilitate continued operation of the venue in the short term.
- 3.4.2 Phase two, which is the topic of this report, is the bulk of required project works planned to start on site for the winter season 2022/23. This phase is a substantial project which required a significant lead in time to facilitate the procurement of specialist consultants, design of the solution, secure the necessary approvals and procurement and delivery of the final scheme.
- 3.5 In order to access the drainage, the changing facilities (including toilets and showers) have to be removed. The canopy over the changing facilities also therefore requires demolition. The proposed scheme represents an opportunity to modernise and increase the provision of some of these

essential facilities which will improve the customer experience, make the venue more accessible and hopefully make the site even more popular.

- 3.6 The works are to demolish the existing external changing rooms, WCs, and showers, break out the existing concrete slab and excavate and replace failed drainage. New foundations and slab to be cast. A new glulam timber frame and canopy to be erected with standing seam metal roof and clay tiles to cupolas. New changing facilities, WCs, and showers to be provided beneath canopy structure. The scheme also includes space for a new poolside refreshment kiosk and additional storage for the current operator, Freedom Leisure. The fit out of the refreshment kiosk will be funded by Freedom Leisure.
- 3.7 The proposed improvements include:
- Larger toilet cubicles and changing cubicles to meet current standards.
  - Two accessible ambulant disabled toilet, shower, and wash hand basin.
  - Increased toilet (five additional) and vanity (eight additional wash hand basins) provision.
  - Increased shower facilities with four individual cubicles available.
  - 12 family change cubicles.
  - Better canopy coverage.
  - Easier facilities to clean and maintain.
  - Better ventilation and more natural lighting.
  - Low energy LED lighting with smart controls.
  - Water saving percussion operated showers, sensor taps, and dual flush cisterns.
  - Better storage facilities for the operator (including the wheelchair hoist storage) and a larger poolside refreshment kiosk.
- 3.8 A range of external specialist advisors were procured to assist in the design and specification of the scheme. This included an Architect (Lytle Associates), consulting Mechanical and Electrical (M&E) engineers (FHS ESS), and quantity surveyors (Press and Starkey) as well as a number of other contributors to the client design team. The Project Management and Contract Administrator is being done in-house.
- 3.9 The proposed scheme was part of the approved capital programme funded from the specialist Leisure Partnership Agreement reserve. This reserve was set up prior to the commencement of the Leisure Partnership Agreement (LPA) in October 2011. This reserve is specifically for schemes at the three LPA sites and facilitates the funding of schemes in a timelier way than the standard capital schemes funding process. Scheme funding from the LPA reserve is released by the Chief Financial Officer under delegated powers.

- 3.10 The proposed scheme requires planning permission and building regulations compliance. The proposed scheme has met all the necessary requirements for the statutory consents.
- 3.11 The expected project cost was originally estimated in June 2021 by the external Quantity Surveyor (QS). Due to the current unprecedented world situation and the resulting pressure on the economy and world markets, the scheme was re-evaluated by the QS in April 2022. At that stage the scheme was expected to cost in the region of £970k including a contingency provision (excluding fees and statutory consents). A further allowance was made for the accelerating inflation rate resulting in the entire scheme, including fees and contingency, being expected to be in the region of £1.2m.
- 3.12 The programme for the scheme is challenging due to its complexity and available timeframe for the works. Ideally the scheme needs to commence on site on October 3rd and complete by 31 March 2023 to facilitate the Lido being ready to open for the 2023 summer season at the end of April. This programme is weather dependent as there are significant amounts of ground works to be completed. This work would typically be done in the summer period to reduce the risk of weather impacts. Key risks of the project are detailed in Section 5.
- 3.13 The procurement was via an open tender process facilitated by the Procurement team and validated by colleagues in Legal. The tender was returned at the end of July and evaluated accordingly. The nine submissions (ranging from £1.7m - £2.1m) included a requirement for a detailed programme. The contract has not yet been awarded due to the shortfall in funding.
- 3.14 The QS was asked to review the tender submission and provide feedback on why the estimate was so different from the tender submissions. The entire narrative of their feedback is at Appendix A. An extract of their comments includes:

*“...there have been significant increases in cost in all elements of the project which I think reflects the fairly unprecedented times (at least in recent years) that the construction industry is facing. There are now numerous cost pressures on the industry and very substantial risks that Contractors are having to manage in terms of obtaining fixed price quotations and their ability to forecast outturn construction costs which we are seeing having a major impact on tender prices across a variety of different types of project...”*

*In summary I think it is fair to say that the project is more complex and involved than was perhaps envisaged in the original estimate, but tender prices have seen very major increases across the board for the reasons mentioned above.*

*In our opinion the key factor that can't be underestimated is that of risk. In a number of trades now Contractors are either unable to obtain fixed price quotations, or where fixed these prices are being held open for a very limited period of time. Contractors are therefore in our experience being extremely cautious about prices and where there is any doubt are pricing the risk accordingly."*

#### **4. Consultations**

- 4.1 The project and design have been discussed in detail with Freedom Leisure (FL) on a number of occasions from an operational perspective and with representatives from Friends of Guildford Lido (FOGL) to represent a customer perspective. Representatives from FL and FOGL were invited to and attended a site visit to assess the intended cubicle offering from the chosen supplier.
- 4.2 The proposed detailed scheme has been presented to key councillors on a couple of occasions and a general presentation accessible to all councillors is programmed for 19 August 2022.

#### **5. Key Risks**

- 5.1 A detailed project risk assessment has been prepared. Key risks include:
  - Weather.
  - Ongoing inflationary rises.
  - Material availability and manufacture timelines e.g. Glulam frame.
  - Specialist labour availability & risk of pandemic.
  - Insufficient time to deliver the programme in the winter season resulting in loss of part of summer season and claim for lost net income from leisure provider.

#### **6. Financial Implications**

- 6.1 With an allowance for fees and a contingency a total scheme budget of £2.1m is felt to be prudent. There is available funding for £1.5m in the earmarked LPA Reserve so a virement from the capital contingency of £600k is required to meet the potential total cost of the project.
- 6.2 As the capital contingency is part of the approved capital programme there are no additional revenue costs arising from the approval of this virement.
- 6.3 The LPA Reserve has £1.5m available to partially fund the scheme. The planned release of this funding will result in the reserve being depleted. If unforeseen circumstances at the three leisure sites require capital funding then the only option will be within the normal capital scheme arrangements.

- 6.4 In the event of the project over-running then the Leisure Partnership Operator would be able to claim for lost net revenue. This would require the application of a standard mechanism within the LPA and the operator is required to mitigate against this circumstance. Whilst this is a risk, the financial impact would start small and be progressively more significant as the summer season progressed.

## **7. Legal Implications**

- 7.1 The Council has an obligation under clause 38.2 of the LPA to undertake maintenance, repairs and replacements as set out in the asset management responsibilities in schedule 14. A failure to do so would be a breach of the LPA. In accordance with 9.6 of schedule 14 of the LPA the Council is required to repair and replace the external drainage system.
- 7.2 A procurement exercise has been undertaken to ensure that the award of the contract is compliant both with the Public Contract Regulations 2015 and the internal Procurement Procedure Rules.

## **8. Human Resource Implications**

- 8.1 There are no additional HR implications as a result of this scheme.

## **9. Equality and Diversity Implications**

- 9.1 An Equalities Impact Assessment (EqIA) is being prepared for this scheme. A design and access statement was prepared and approved as part of the planning application.
- 9.2 The scheme has been designed to take into account the modern access standards where they possibly can across the affected site. This includes introducing ambulant accessible toilet, shower, and wash hand basin provision, private shower cubicles, accessible counter to poolside kiosk, and wheelchair friendly design throughout.

## **10. Climate Change/Sustainability Implications**

- 10.1 As part of the Council's climate change initiative, APSE was commissioned to undertake an energy audit of the Lido site including the external changing facilities. The scheme meets all recommendations of the APSE report in relation to this area including energy saving and water saving technologies. The Mechanical and Electrical Engineers were commissioned to evaluate the most efficient solution for the additional M&E services. The recommended solution has the highest energy rating of A+. These initiatives are highlighted in 3.7 above.

## **11. Options**

- 11.1 If the Lido is to continue to operate, then the drainage issue must be addressed. The project has been reviewed in detail from a value

engineering prospective, the savings identified without compromising the scheme are minimal by comparison to the shortfall in funding.

## **12. Conclusion**

- 12.1 This work is essential as the drainage is intrinsic to the service delivery. This project represents an opportunity to improve the customer experience at the venue which will hopefully increase the visits further.
- 12.2 The appointment of the winning contractor from an open procurement represents the best market offer available. Any delay to these works is very likely to increase the costs significantly in the current market climate.

## **13. Background Papers**

- 13.1 None

## **14. Appendices**

- 14.1 Full narrative of the QS feedback from Press and Starkey is at Appendix A



## **Lido Drainage and Modernisation Project**

### **Full narrative of the QS feedback from Press and Starkey**

*“...there have been significant increases in cost in all elements of the project which I think reflects the fairly unprecedented times (at least in recent years) that the construction industry is facing. There are now numerous cost pressures on the industry and very substantial risks that Contractors are having to manage in terms of obtaining fixed price quotations and their ability to forecast outturn construction costs which we are seeing having a major impact on tender prices across a variety of different types of project.*

*We will review in slightly more detail some of the main areas of significant cost increase later in this note but in terms of material and labour prices at present the main issues are as follows:*

#### **Materials**

- a. The Brexit deal and the consequential increased bureaucracy at ports has led to supply problems in materials and major material shortages which have impacted significantly on cost where contractors are competing with one another to source sufficient product at significantly inflated prices.*
- b. The cost of energy for the production of materials has risen significantly over the past 6 months and these increases are now being reflected in the supply price of most manufactured materials. The cost of oil and gas has been affected by the Russia Ukraine war and it is not clear how long this will continue.*
- c. The cost of some manufactured materials has been affected by the social distancing requirements at factories.*
- d. The removal of the red diesel rebate has led to a major increase in fuel costs in the construction industry. The BCIS forecast for oil and fuel prices in the construction industry is showing an 86% increase in 1<sup>st</sup> quarter 2023 compared with a year earlier.*

#### **Labour**

- e. Restrictions on the movement of foreign construction labour have led to significant shortages of skilled labour in many construction industry trades. In all of the projects that we currently have on site Contractors are reporting labour shortages leading to delays and having to pay significantly more in order to attract skilled workers.*
- f. HS2 continues to impact on availability of labour in civil engineering trades.*

- g. General UK inflation levels are leading to increased wage demands from Unions dealing with construction industry trades.*

*With regard to the Principal areas of cost increase we would comment as follows :*

***Preliminaries***

- a. Concern about the project timeline and working hours has we believe impacted on the Preliminaries costs.*
- b. Supply chain shortages as a result of Brexit have led to longer lead in times resulting generally in contractors looking for longer contract periods and/or pricing the risk associated with potential delays*

***Groundworks including Foundations & drainage***

- c. Groundworks are one of the trades impacted by the current shortage of skilled labour leading to substantial premiums being paid to secure staff.*
- d. Concrete and steel reinforcement costs have seen substantial increases over the past 6 months and there is no certainty on how these will be affected in the next 12 months.*

***The Frame & Roof***

- e. Timber prices are fluctuating on a daily basis and have seen significant price increases over the past year.*
- f. On two projects that we are currently working on Contractors are reporting difficulty in sourcing Glulam beams and that suppliers are only willing to hold open their prices for 3- 4 weeks.*
- g. The price of the standing seam roof has increased as a result of substantial increases in steel prices.*

***Mechanical & Electrical Services***

- h. Prices for manufactured products used in the M&E services sector have increased significantly, being affected by both increased energy costs and supply chain issues.*
- i. M&E sub-contractors are reporting shortages in skilled labour, restricting their ability to serve current projects and pricing new work at a premium to ensure they can attract the necessary workforce.*

*In summary I think it is fair to say that the project is more complex and involved than was perhaps envisaged in the original estimate, but tender*

*prices have seen very major increases across the board for the reasons mentioned above.*

*In our opinion the key factor that can't be underestimated is that of risk. In a number of trades now Contractors are either unable to obtain fixed price quotations, or where fixed these prices are being held open for a very limited period of time. Contractors are therefore in our experience being extremely cautious about prices and where there is any doubt are pricing the risk accordingly."*

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