

Brighton & Hove City Council

Policy & Resources Committee

Agenda Item 16

Subject: Royal Pavilion Estate Capital Works – Phase 1

Date of meeting: 07 July 2022

Report of: Executive Director Economy, Environment and Culture

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Ward(s) affected: All

For general release

1. Purpose of the report and policy context

- 1.1 Phase 1 of the Royal Pavilion Estate project aims to restore and transform one of the city's most historic buildings. The project will deliver state of the art facilities in the Corn Exchange and Studio Theatre whilst revealing and restoring the building's historic fabric. It will provide a new welcome area and public galleries, education space and restaurant. The restoration will ensure that the buildings continue to play their part in the city's cultural and economic life for the next 100 years and beyond.
- 1.2 The council and Brighton Dome & Festival Ltd (BDBF) signed a Memorandum of Understanding on 18 August 2014, to formalise the joint working with the former Royal Pavilion & Museums (which transferred to a trust (RPMT) in October 2020). This Memorandum of Understanding underpinned the delivery of the phased capital works to the Royal Pavilion Estate (RPE) aiming to secure its long term future and financial viability. This demonstrated the ambition of the partners to achieve high quality outcomes that transform the RPE facilities and offer. The fundraising campaign for the Phase 1 works to restore the Corn Exchange and Studio Theatre has included successful bids to Arts Council England (ACE), National Lottery Heritage Fund (NLHF), Coast to Capital Local Economic Enterprise Partnership and private trusts and individuals.
- 1.3 Phase 1 works started on site February 2017. The Main Contractor, R. Durnnell & Sons (RDS), left site on 01 July 2019 and entered Administration. The council terminated the JCT building contract for the works and procured a Management Contractor to recover the project. This report provides an update on the work being done by officers to ensure completion of the project at the earliest opportunity and the financial status.

2. Recommendations

- 2.1 That Committee notes the current project programme, identified risks and financial implications.
- 2.2 That Committee agrees the financial strategy set out in paragraph 4.3 and the proposed additional borrowing facility to ensure project completion.

3. Context and background information

- 3.1 BDBF has a lease from the council on the Brighton Dome, Corn Exchange and Studio Theatre. The grade I listed Corn Exchange and grade II listed Studio Theatre form an important part of the RPE and are key to BDBF's on-going activities, while making a significant contribution to the city's cultural and economic life.
- 3.2 The project is part of a long-term collaboration between Brighton & Hove City Council, Brighton Dome & Brighton Festival and the Royal Pavilion & Museums Trust. The longer-term vision aims to reunite the historic RPE to create a centre for heritage, culture and the performing arts which reflects the unique spirit of the city.
- 3.3 The major restoration and refurbishment of the 200 year old Corn Exchange and 1930s Studio Theatre is the first phase of a wider project to reaffirm Brighton's RPE as a key cultural destination and contributes significantly to the life of the city for residents, businesses and visitors.
- 3.4 The restoration of these buildings to provide high quality spaces, improved audience experience and an enhanced community offer can be seen as a spend-to-save investment that addresses the maintenance liabilities for the council. These would continue to increase if the works were not carried out. The project transforms the performance spaces and creates new public areas that will open up the buildings to reveal their history, ensuring a sustainable future. Improvements to public and artist facilities include accessible toilets, hearing assistance systems, wheelchair access, plus new creative space for community groups and emerging artists to develop their work.
- 3.5 Following the council's main contractor going into administration on 1 July 2019, works ceased and the construction team left site immediately without securing the building or works. This left one of the city's key historic buildings at risk and the council team took urgent steps to secure and protect the buildings. A recovery plan was agreed with BDBF, National Lottery Heritage Fund (NLHF) and Arts Council England (ACE).
- 3.6 The project design team carried out a full condition survey to establish which works were remaining to be completed. This survey logged defects and mitigation works required. This was used to prepare the works specification to procure a Management Contractor to recover the works.

- 3.7 The loss of the original Main Contractor and with it a fixed price contract for the works resulted in project risks transferring to the council. These included significant remedial works to replace installations where no warranty would be available due to the loss of RDS, defective works, structural defects in the Corn Exchange timber frame and roof, subcontractors going into administration and cost increases due to the extended programme.
- 3.8 In addition to the risks associated with the works, the pandemic, Brexit and now the war in Ukraine have impacted progress over the last two years with a combination of interruptions to works due to lock downs and infections, increased lead-in times for materials and rising costs due to inflationary pressures.
- 3.9 The options available to continue the works were to seek a new Main Contractor or appoint a Management Contractor. The latter offered the quickest route to re-starting works and allowed some sub-contractors to be retained. This was particularly important for mechanical and electrical installations that were over 50% complete. This avoided abortive works and associated costs where new subcontractors would not take on responsibility for already installed infrastructure, which would have otherwise had to be removed and replaced. The costs of discoveries onsite that were unknown when restarting the works would have had to be borne by the council regardless of which option was agreed. On balance, appointing a Management Contractor was considered the most economical approach when considering time and cost. Westridge Construction Limited was procured to carry out this role for the council.
- 3.10 To continue works to achieve project outcomes and completion the council has been required to contribute considerably more funding than originally anticipated. However, this should be seen against the significant external funding this scheme has attracted. The importance of these buildings for our city is also recognised by the other organisations and trusts who have contributed towards project costs. The council has carried through the recovery of the project to deliver the original design intent that ensures the buildings continue to play their part in the city's cultural and economic life for the next 100 years and beyond.
- 3.11 The restoration of the 200 year old Corn Exchange was expected to reveal decay in its timber frame and an allowance for this was included in the works costs as well as having project contingency in place. However, the extensive deterioration and resulting structural weakness discovered was far greater than suggested by the surveys carried out prior to the start of works. Following removal of paint and coverings of the roof joints and improved access, further structural analysis of the split joists and spreading joints revealed that there was no factor of safety remaining in the roof. This has required significant remedial works to ensure the building's structural integrity. These additional works have caused delays to the programme and resulted in significantly increased costs over and above contingency provisions.

- 3.12 The council's original commitment of £1.320m was increased by £3.000m at Policy, Resources & Growth Committee in December 2018. In October 2019, Policy & Resources Committee agreed additional borrowing to be reported through TBM reporting. At the time this was forecast to be up to £5.000m. Additional borrowing of £1.0m was approved at February 2021 Policy & Resources Committee to support the additional HLF and ACE Kickstart contributions toward delays due to Covid-19. Further borrowing of up to £2.400m was approved through TBM 7 at October 2021 Policy & Resources Committee to meet the anticipated budget deficit.
- 3.13 However, continuing issues on site around defects being discovered in works by RDS, combined with sub-contractors going into administration with the associated delays this brings, has resulted in the latest Project Quantity Surveyor report (24/05/22) forecasting an additional funding requirement of up to £2.005m to complete the works. This figure includes contingency of £0.174m. The project team are also seeking to make savings and to date have achieved circa £0.140m through design changes agreed with BDBF.
- 3.14 Based on the latest Project Quantity Surveyor report, the total project expenditure is now forecast to be £36,658,208. Total capital project funding currently stands at £33,167,076 plus the RDS Bond to be claimed following Practical Completion and Defects Period of £1,485,883. This results in current total income of £34,652,958. Therefore, the current project deficit is forecast to be £2.005m.
- 3.15 However, some contingency is proposed to cover any increase due to on-going delays to the programme, longer lead in times for materials and increases in materials costs. It is requested that an additional borrowing facility should be made available of up to £2.500m to achieve Practical Completion and all of the original project outcomes.
- 3.16 The estimated total council contribution to the capital project if this additional funding is agreed is now likely to be up to £14.920m (41%), against other match funding of £20.091m (55%). The RDS Bond and an insurance payment for damage due to water ingress makes up the remaining funding percentage. The overall project budget reflects the original works contract, the recovery contractor costs and an estimate of the remaining fit out and finishing costs. This can still be considered good value for money for the council to restore its unique and extraordinary heritage asset. Without the grant funding and private trust and individual contributions secured for the project, the council would be obliged at some point in the future to address the building's deteriorating condition. This would have the potential to become a considerably greater liability for the council over time and adversely impact the operations of BDBF.
- 3.17 The project budget includes an additional contribution by National Lottery Heritage Fund (NLHF) Heritage Kickstart grant of £1.000m to add to the £4.823 million already allocated. Arts Council England's (ACE) Cultural Capital Kickstart Fund also awarded an additional £458,920 on top of the previously allocated £5.6 million. Both of these additional allocations were from the Department for Digital, Culture, Media and Sport's NLHF Heritage

Capital Kickstart Fund and ACE Capital Kickstart Fund respectively and related to the impacts of Covid-19. This additional grant funding recognises the importance of the project to the cultural and economic life of the city and is helping us to complete the work.

- 3.18 We continue to review opportunities and work with partners to seek to secure additional funding. The council has approached both ACE and NLHF, however they have advised that they are unable to offer further grant funding at this time. A further letter has been sent to ACE from the Leader of the Council.
- 3.19 The project income has been impacted by a shortfall in the BDBF fundraising campaign. This is believed to have been affected by donor uncertainty during the exceptional times during the period of austerity and Brexit. The original target of £5.500m was reduced to £3.000m and currently £2.502m has been achieved. This possible additional shortfall of £0.500m has been factored into the current budget forecast. To mitigate against this risk BDBF are continuing to pursue contacts and approaching contributing trusts to explore additional top-up grants. They are also preparing for another stage of the sponsoring a seat campaign now that the new Corn Exchange seating has been installed.
- 3.20 The latest programme issued by the council's Management Contractor has a completion date of 07/12/22. This is due to a new discovery onsite and the project architect and the council's Management Contractor are seeking mitigation within the programme to improve on this date. Weekly programme meetings continue to monitor progress, review the Information Release Schedule and look ahead to the works' requirements.
- 3.21 Meetings have also been held with the council's senior team and Westridge's Managing Director in order to ensure completion of the project remains a top priority. All remaining decisions are made as quickly as possible with client oversight to prevent further programme slippage. To support successful project completion the council is seeking further assurance through the appointment of additional support including a Clerk of Works to oversee the finishing works, commissioning and snagging process.
- 3.22 The commissioning programme is anticipated to commence in August 2022 and does carry risk of building systems requiring additional works if found to be malfunctioning. Following commissioning, a proving period of 8 weeks, 4 weeks before and 4 weeks after Practical Completion, will allow all systems to be monitored before BDBF recommences delivery of its artistic programme. It is anticipated that any serious issues will become apparent during the 4 weeks proving period before Practical Completion.

4. Analysis and consideration of alternative options

- 4.1 The project has experienced a number of setbacks including discoveries on site such as a Quaker burial ground and serious structural issues with the Corn Exchange roof, RDS leaving site and going into administration, defects in the works carried out by RDS and the effects of the pandemic. While this

has been a difficult process works have now been completed to a high standard and are at an advanced stage with decorating and fit-out of spaces underway. It is recommended that works continue to Practical Completion to realise all project outcomes and deliver against the funding conditions of external funders including NHLF, ACE and Coast to Capital. This would secure the buildings and support the activities of BDBF.

- 4.2 The option of stopping works would jeopardise the future of the grade I listed Corn Exchange and grade II Studio Theatre along with their place in Brighton's renowned RPE and their cultural and economic contribution to the city. Should the Phase 1 capital works to the council's freehold property not be completed to the original scope there is the risk of clawback of the secured match funding and loss of the remaining grant to be claimed. This includes £6.062m Arts Council England (ACE), £5.823m National Lottery Heritage Fund, £3.000m Coast to Capital Local Growth Fund (LGF), £2.502m private trust and individual commitments and BDBF borrowing of £2.704m, resulting in total match funding of £20.091m.
- 4.3 Without these works and the secured external funding the buildings can be expected to become an increasing liability for the council and this project is an opportunity to spend-to-save and invest in the city's key cultural and historic infrastructure. For the project to complete and the anticipated benefits be achieved the council should consider providing the additional funding required. The council has the opportunity to use its borrowing facility to provide the required project funding within a managed and achievable funding model to ensure that Phase 1 completes and that subsequent phases follow on and attract further inward investment to achieve the wider ambitions for the RPE.

5. Community engagement and consultation

- 5.1 The initial National Lottery Heritage Fund (formerly Heritage Lottery Fund) submission was informed by a series of consultation and engagement sessions, which included workshops, presentations and surveys undertaken with a variety of stakeholders. The planning application and listed building consent applications for Phase 1 works included statutory public consultation.
- 5.2 User-feedback collected by BDBF suggested that the Phase 1 changes and improvements throughout the building are definitely required to enhance the audience experience and to encourage further visits and spend in the venues. The Phase 1 works contribute to creating a world-class cultural destination in the heart of Brighton & Hove and deliver a strong model for long term financial resilience, of the charity itself (through significant increases in self-generated income), the wider RPE and, through significant job creation and impact on the visitor economy, to the city as a whole.

6. Conclusion

- 6.1 The loss of the main contractor resulted in the need for a recovery plan that included appointing a Management Contractor to complete the works.

Following emergency and remedial works to secure the building, the completion works, fit out and commissioning are now approaching completion.

- 6.2 The grade I listed Corn Exchange and grade II Studio Theatre form an important part of the RPE and are key to BDBF's on-going activities while making a significant contribution to the city's cultural and economic life. Not completing the works would both seriously affect BDBF's future financial position and risk the council's financial liability for the buildings growing over time. As well as the condition of the buildings themselves, this liability includes the potential claw back of the grant funding already received.
- 6.3 The approval of the funding strategy presented in this report would be a spend to save investment to secure the future use of the buildings and will enable the project to continue the delivery of Phase 1 works to a successful completion.

7. Financial implications

- 7.1 The RPE Capital project has been financed through a combination of Arts Council Grant, National Lottery Heritage Fund Grant, Coast to Capital Local Growth Fund Grant, private fundraising contributions, BDBF borrowing and council match funding. The council funding to date has contributed a total of £9.400m through borrowing and £3.320m from capital receipts and reserves. The financing costs associated with the borrowing has been incorporated into the council's Medium Term Financial Strategy. An additional sum of up to £2.500m will now be required to ensure full completion in 2022/23 as set out in paragraphs 3.12 and 3.13 above. The council's total funding contribution to the project would equate to £14.920m. The cost of financing an additional £2.500m will be circa £0.088m p.a. and will need to be met within the council's overall revenue budget.

Name of finance officer consulted: Rob Allen Date consulted 24/05/22:

8. Legal implications

- 8.1 The Council will continue to take advice from its contract administrator to ensure that the costs are properly incurred by the contractor and fall due under the contract.

Name of lawyer consulted: Alice Rowland Date consulted: 30/5/22.

9. Equalities implications

- 9.1 In preparing the capital works proposals, an extensive range of stakeholders were consulted to identify issues of access to facilities and activities in order that these may be addressed through the project works. Improved educational space will be provided within the overall project that will further increase access for schools and others to the RPE activities. The project improves public and artist facilities including accessible toilets, hearing

assistance systems, wheelchair access and a new creative space for community groups and emerging artists to develop their work.

- 9.2 An Equalities Impact Assessment has not been carried out as the project was developed by BDBF prior to the Memorandum of Understanding and the council procuring the works.

10. Sustainability implications

- 10.1 The project's Phase 1 sustainability consultants, as part of the integrated design team, undertook a detailed evaluation and consideration of the use of sustainable technologies and where possible these have been incorporated into the developed design. The project is using a specialised matrix approach to target areas of design that can offer the best opportunities for improving environmental performance of the listed buildings. At present, the project is anticipated to achieve the equivalent of a BREEAM rating assessment of Good.
- 10.2 The proposed capital works will result in the historic buildings being more energy and water efficient, both of which will contribute to reduced operating costs.

11. Other Implications

Social Value and procurement implications

- 11.1 The project is investing in premises to promote economic activity and support growth of the local cultural and tourist economy.

Supporting Documentation

N/A