

# North Yorkshire Council

## Executive

12 March 2024

### Harrogate Convention Centre Redevelopment Project

#### Report of the Corporate Director of Resources

#### 1.0 PURPOSE OF REPORT

- 1.1 To update Members on the outcome of the final tendered price and programme for phase 1 of the redevelopment project for Harrogate Convention Centre (HCC).
- 1.2 To note that the final tendered price (£57m) is only reserved until 28 March 2024 and therefore;
  - a) Seek a decision from Members whether or not to accept this contract price and subsequently enter into contract for the works; and
  - b) Note that, should Members decide not to enter into this contract, this is not an end of HCC nor an end to any further investment in the venue, but rather an opportunity to consider alternative options and timescales for HCC's redevelopment.

#### 2.0 SUMMARY

- 2.1 Harrogate Convention Centre (HCC) is an extraordinary multi-purpose venue in the heart of Harrogate that hosts various conferences, corporate events, trade and consumer exhibitions, as well as banquets and entertainment.
- 2.2 The Centre is integral to the visitor economy of Harrogate and the wider region with a gross economic impact (GEI) estimated to be c.£45m per annum, with specific local benefits to jobs, shops, cafés, restaurants, hotels and bars.
- 2.3 The council is keen to retain the economic benefits of HCC but faces some complex challenges including an annual operating subsidy of c.£2.7m, substantial capital investment and significant carbon emissions.
- 2.4 Harrogate Borough Council commenced the redevelopment project back in 2016 following a decline in income, now operating at a subsidy, and the need for significant capital investment into the ageing building.
- 2.5 The project initially scoped out two phases; the first being to refurbish the conference centre side of the site, to include the provision of breakout rooms that align with the Auditorium's capacity, improve internal access, enhance the appearance of the building and repair/replace the necessary mechanical, electrical and plumbing (MEP); the second phase sought to replace the existing exhibition halls with a new multi-purpose event space. The initial feasibility cost estimate for both phases was c.£47m.
- 2.6 KPMG were appointed to undertake a draft full business case to support the need for investment. The initial cost estimate was increased to £48.6m for phase 1 alone and, due to complexities and cost, phase 2 was deferred.

- 2.7 Arcadis and BAM Construction were appointed to act as project consultants and to provide a design, price and programme, to culminate in one costed works package for the whole of the phase 1 project.
- 2.8 Harrogate Borough Council applied to the Government's Levelling Up Fund (LUF) for £20m external funding support towards this project. The application was unsuccessful, increasing the pressure on the affordability of the project.
- 2.9 Throughout the project pricing and design stage, Officers received regular updates and price notifications for the revised project costs. With escalating costs, the internal Project Team agreed to undertake a soft market testing exercise for HCC. The aim of this exercise is to test the marketplace with options for the venue whilst preserving the economic benefits and the public purse. This exercise is ongoing and will also assess future options for HCC.
- 2.10 The final costed designs and programme for phase 1 works have now been received. These total £57.2m, an increase of £8.6m from the figure used in the draft full business case. The council has until 28 March to accept this firm price contract.
- 2.11 The construction programme is proposed to be spread over three years so as to limit disruption. However, this is a significant concern for the Director of HCC. Parts of the venue will have to be closed for significant periods of time during the suggested programme of works, thus impacting upon operations and events, causing unbudgeted disruption costs and concerns over the longer-term rebooking of seasonal events, that may never return.
- 2.12 Based upon the facts that the construction price estimate has increased, applications for external funding have not been successful and the assumptions in the draft business case are already out of date (in particular, interest rates and the cost of borrowing and energy costs), the Project Team declined to spend a further significant sum on revising the business case, but rather await the outcome of the soft market testing exercise. Officers do not support entering into contract for the £57m works to HCC but acknowledge the need for future investment.

### **3.0 BACKGROUND**

#### **3.1 Harrogate Convention Centre**

- 3.1.1 Harrogate Convention Centre is an extraordinary multi-purpose venue, in the heart of Harrogate, that hosts a significant programme of trade exhibitions (45%), association conferences (19%), special events (16%), public sector events (12%), corporate events (7%) and banquets (1%).
- 3.1.2 The majority of the HCC estate was built in 1980 with the full venue site consisting of a 1,977 capacity auditorium, eight multi-purpose spaces (14,000 gross sqm in total) and additional event spaces, including the stunning Edwardian Royal Hall, which has a capacity of 988 delegates theatre style.
- 3.1.3 The mission of the venue is, "To deliver high quality conferences, exhibitions and events that bring maximum economic impact and prosperity for the residents and businesses in the region".

#### **3.2 Economic Position**

- 3.2.1 HCC is integral to the visitor economy in Harrogate and the wider region, with a previously estimated Gross Economic Impact (GEI) of at least £30m per year (using the Visit Britain formula 2017). Adjusted for inflation using the Bank of England calculator, the economic

impact of HCC is now estimated to be c.£45m per annum. Currently, over 150,000 individual visitors are attracted to HCC each year. In 2023/24 this is expected to equate to c.257,000 multiday visits. The venue plays a vital catalytic role for local leisure, retail, accommodation and hospitality sectors.

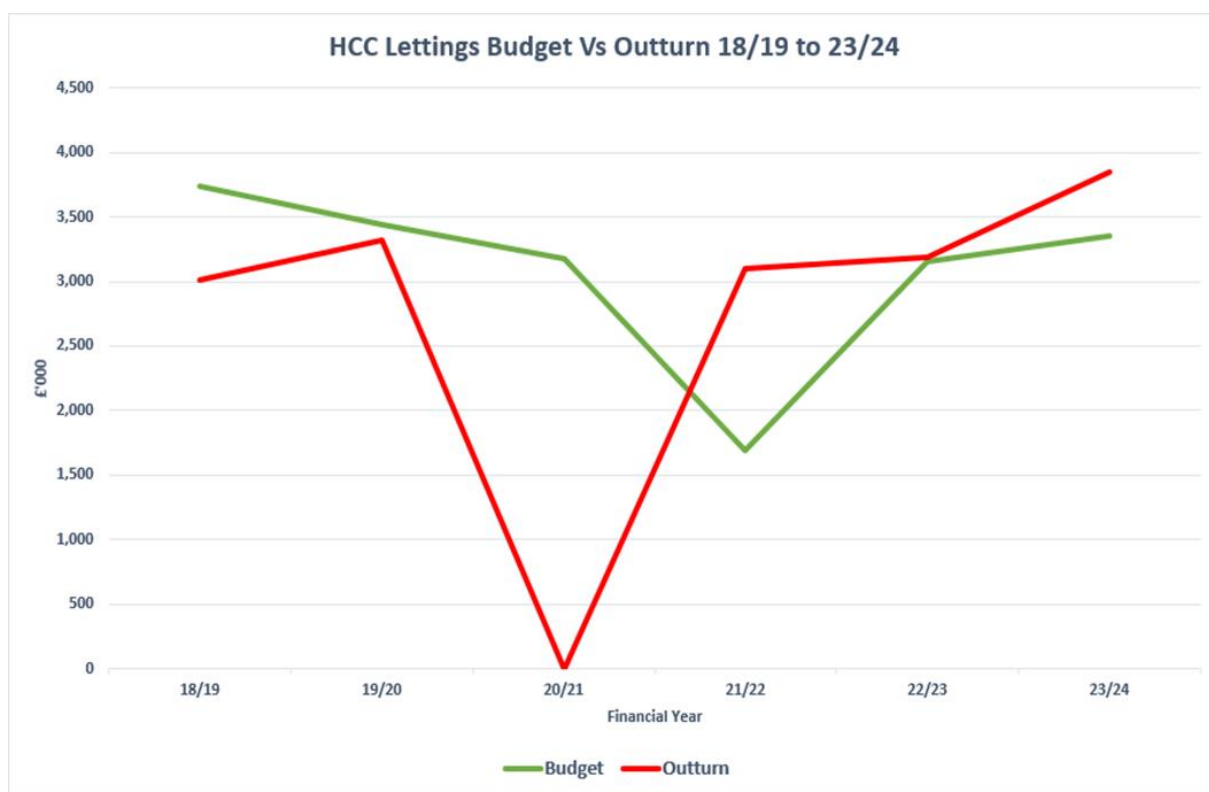
- 3.2.2 The venue and the town are intrinsically linked in economic performance as HCC provides significant employment; at the venue itself, within its local and regional supply chain and in the wider visitor economy of North Yorkshire and beyond. With approximately 500 businesses in the hospitality sector, HCC supports over 7,000 jobs across the former Harrogate district. Supply chain benefits extend across North Yorkshire with almost 40% of suppliers in 2019/20 coming from the North Yorkshire and York area.
- 3.2.3 HCC is also pivotal in ensuring the area remains busy outside the peak leisure tourism season which is predominantly summer and school holidays. By contrast, the business events industry's peak periods are spring and autumn, and in HCC's case, two of its largest trade exhibitions are in January, when most other venues are empty. Moreover, many leisure visits are short breaks over weekends, whereas business events mainly run on weekdays. HCC have calculated that, for every £1 spent at HCC, £6 is spent in the town and local region.
- 3.2.4 It is also important to note that many business visitors will later become leisure visitors. According to the 2017 Business Event Research on 'Delegate Spend and Trip Extensions' by Visit Britain, 88% of delegates who visited Harrogate said they were "very likely" or "fairly likely" to return on holiday or short break. Harrogate ranks first in the UK in this category which will have a significant positive impact on visitor numbers to the wider region too.

### **3.3 Venue Performance**

- 3.3.1 Whilst lettings have largely been in decline since 2006 as a result of increased competition, the impact of the 2008 recession, and aging facilities, HCC has enjoyed a resurgence post-Covid with an increase in lettings.
- 3.3.2 Implementation of a new management team and commercial strategy as well as investment in minor cosmetic improvements to customer spaces has enabled this growth. The upturn in HCC's performance is also set to continue to rise in 2024/25.

### **3.4 Financial Performance**

- 3.4.1 HCC currently requires an annual operating subsidy. This is budgeted to be £2.7m for 2023/24, though is forecast to be lower due to reducing energy costs.
- 3.4.2 Whilst lettings revenue has largely been in decline since 2006, as shown in the graph below, income has increased post-Covid and lettings are expected to reach close to £4m in 2023/24. HCC has increased lettings income by 28% since 2018/19 (excl. Covid) and this upturn in revenue performance is set to continue to rise in 2024/25.



3.4.3 The table below shows the change in income and expenditure since 2018/19:

Income and Expenditure	2018/19 Actual £000	2019/20 Actual £000	2020/21 Actual (Covid) £000	2021/22 Actual (part Covid) £000	2022/23 Actual £000	2023/24 Budget £000
<b>Income</b>	<b>4,609</b>	<b>5,220</b>	<b>3,074</b>	<b>3,691</b>	<b>5,154</b>	<b>6,612</b>
<b>Expenditure</b>						
Employees	2,903	2,898	1,926	2,214	2,831	3,617
Supplies & Services	1,307	1,326	769	1,060	1,324	1,959
Premises	1,188	1,258	1,673	1,401	2,420	2,727*
<b>Total</b>	<b>5,398</b>	<b>5,428</b>	<b>4,404</b>	<b>4,675</b>	<b>6,575</b>	<b>8,304</b>
<b>Operational Loss</b>	<b>789</b>	<b>262</b>	<b>1,330</b>	<b>984</b>	<b>1,421</b>	<b>1,691</b>
Lifecycle Costs	999	568	906	1,115	1,206	1,000
<b>Net Loss</b>	<b>1,788</b>	<b>830</b>	<b>2,236</b>	<b>2,099</b>	<b>1,889</b>	<b>2,691</b>

\* Based on provisional utility estimates of £2.3m. The latest forecast outturn is £2.0m

3.4.4 Further commercial opportunities are also being explored for HCC to reduce the annual subsidy.

3.4.5 However, even with the improved sales strategy, inefficient MEP and failing facilities hamper the venues' ability to become cost-neutral. This has been further compounded recently by the energy crisis.

### 3.5 Carbon Consumption

3.5.1 HCC is a major contributor to the council's total carbon emissions. Based on calculations prepared for the Public Sector Decarbonisation Scheme (PSDS) bid in January 2021, it is estimated that HCC has a Carbon Footprint of 2007 CO<sub>2</sub> tonnes per year.

3.5.2 HCC's MEP systems have received little significant investment over their 40-year life and are generally approaching or already beyond technological obsolescence, resulting in excessive

energy consumption, much reactive 'fire-fighting' repair and high costs to maintain the asset and serve events.

### **3.6 Redevelopment Project**

3.6.1 It is recognised that HCC is experiencing some considerable challenges, which can be defined as follows:

- a) The condition of the asset is declining, particularly the heating and air-conditioning, resulting in an adverse impact on events at the venue. A continuation of this decline, without upgrade and mitigation measures being implemented, could have significant consequences on the continued operation of the venue. Its declining condition will increasingly compromise the safety and compliance of the asset.
- b) The current operating costs, as a result of legacy maintenance challenges and the recent significant rise in utility costs, makes a venue of this scale expensive to run and maintain.
- c) The current design and layout of the premises presents challenges in attracting some larger scale conferences and other events and leads to some areas of the venue being underutilised. For example, it does not provide sufficient breakout spaces to attract conferences of over 1,000 delegates (and yet the auditorium has a capacity of 1,977), the location of breakout spaces is not ideal and there are concerns with visitor accessibility. HCC estimates that it currently turns away enquiries worth c.£1m each year due to the lack of sufficient breakout rooms. This is of significant concern as HCC competes within a very competitive sector with several new and upgraded venues emerging across the UK.
- d) HCC is one of the biggest contributors to total carbon emissions in the region, which poses challenges to the council's aspiration to achieve net carbon neutrality by 2030.

3.6.2 Harrogate Borough Council had been working on a redevelopment project for HCC for a number of years and an initial outline business case was prepared in 2018. The project initially scoped out two phases; the first being to refurbish the conference centre side of the site, to include the provision of breakout rooms that align with the auditorium's capacity, improving internal access, enhancing the appearance of the building and repairing/replacing the necessary mechanical, electrical and plumbing (MEP); the second phase sought to replace the existing exhibition halls with a new multi-purpose event space. The initial feasibility cost estimate (RIBA 0) for both phases 1 and 2 was £47m.

3.6.3 The council appointed a Design Team, led by Arcadis, to provide project management, design, contract administration and supervision of phase 1 of the project. The initial cost estimate was increased to £48.6m for phase 1 alone (RIBA 3) and, due to complexities and cost, phase 2 was deferred.

3.6.4 KPMG were brought on board to support the council in the development of a Green Book Compliant draft full business case for phase 1 to support the investment decision.

3.6.5 BAM Construction were subsequently appointed in January 2023 to develop the design, price and programme for phase 1 up to the end of RIBA stage 4. Upon the completion of this work a report was to be brought back to the executive detailing the cost of phase 1 and the final Full Business Case to enable a decision whether or not to instruct BAM to proceed with any construction works

### **3.7 The Case for Change**

3.7.1 The strategic case for change for investment in HCC is underpinned by a number of key issues, namely:

- **Protect & grow the economic impact HCC drives to the region:** investment will support HCC to attract and deliver incremental events that generate higher revenues and economic impact to Harrogate and the surrounding region.
- **Reduce the current operating subsidy:** via investment in MEP.
- **Service reliability and the costs of service failure:** The decreasing reliability of HCC's assets and infrastructure has affected its ability to host events, resulting in a negative financial and reputational impact. Investment in MEP will improve the reliability of service to customers and reduce the financial costs of poor asset reliability and client compensation events.
- **Environmental performance:** HCC is a major contributor to the council's total carbon emissions. Investment will reduce the CO2 emissions footprint of HCC to support the council's aspiration to achieve net carbon neutrality by 2030.
- **Equality of access:** there are several barriers to equitable access that mean that HCC can only just meet modern accessibility compliance requirements. The redevelopment project seeks to ensure mobility impaired workers and visitors have equitable access to HCC and to improve the visitor experience.

### 3.8 Draft Full Business Case

3.8.1 A Green Book (HM Treasury) compliant draft Full Business Case (FBC) was completed by KPMG in Summer 2022 to support an investment decision by the council. This was based on the RIBA 3 costs for phase 1, which were then estimated to be £48.6m.

3.8.2 The draft FBC concluded that:

- HCC is a keystone of Harrogate's visitor economy and there is a strong case for change (as outlined in 3.7 above);
- HCC has a significant economic impact on Harrogate and the wider region which will improve with investment;
- The phase 1 works result in HCC generating an annual net profit. The project is financially positive and has a positive Present Value of Benefit (PVB) and as such, presents "very high" value for money.
- 'Do nothing' is not a viable option as this would require additional levels of annual subsidy with a predicted decline in income levels and increased costs such as repairs and maintenance.

3.8.3 The draft FBC assumed that the investment would increase income levels, reduce operating costs, and even after adding the borrowing and MRP costs, this would be less than the current level of subsidy.

3.8.4 It had been the intention that, once final design and firm costs had been established at the end of RIBA 4, KPMG would update the draft FBC. However, there have been a number of significant changes over the past 18 months that would also need to be reflected in a final FBC to ensure that it is fully updated and Green Book compliant. Some of these would have required extensive re-working of the business case and underlying analysis. KPMG indicated that a significant budget would be required to fully cover all of the updates. Given the failed LUF bid, the rising construction costs of the project, increasing interest rates and the potential for a decision not to proceed with the current project due to affordability, the Project Team made the decision not to update the draft FBC at this time.

## 4 ASSESSMENT

### 4.1 Contract Price

4.1.1 BAM have now submitted a firm price and programme for phase 1 works. The construction cost is £49,695,498 and the total project cost, which includes preliminaries, fees, contingencies and inflation (provided by Arcadis) is £57,248,677. This represents an increase of over £8.6m on the figures previously used by KPMG in the draft FBC.

4.1.2 The proposal involves a three year works contract, extended in an attempt to minimise operational disruption.

## **4.2 Operational Update**

4.2.1 It is important to note that the project costs exclude operating disruption costs which are likely to be considerable. The original intention was that the scheme must ensure that HCC remain open with minimal disruption, yet, due to the complexity of the work, the interdependencies and the timescales, the costed works for phase 1 are programmed to last for three years and would entail shutting large sections of the venue for up to 15 months at a time. HCC currently has over £14m of forward bookings, and this income would be at significant risk if parts of the venue were to close. Current customers would be lost (possibly for good) and attracting new business would be challenging during the works.

4.2.2 Whilst there is a real need for investment, the HCC Management Team are keen to explore other more affordable options and to avoid shutting large parts of the venue for significant periods.

4.2.3 One possibility could be to prioritise the creation of much-needed break-out spaces which are expected to attract significant additional income each year. This would involve a more modest injection of capital up front to pivot the business, with a view to phasing the MEP replacement over a longer period and thereby reduce/manage operational disruption.

4.2.4 A longer-term plan to address the declining condition of the asset is still necessary. Without upgrade and mitigation measures to address the MEP, there will continue to be significant consequences on the continued operation of the venue.

4.2.5 It is noted that the contracts with BAM and Arcadis contain a wide copyright licence for the council to use the designs and documents which have been produced by the contractor if the redevelopment is taken forward in a different way, and that the investment to date will therefore not be lost.

## **4.3 Financial Update**

4.3.1 Following the decision not to commission KPMG to finalise the business case based on the RIBA 4 price and updated assumptions, a high-level assessment has been undertaken considering the following factors:

- Estimated scheme costs increased by £8m to £57m, with no external grant funding and only £3m funded from Council reserve. The balance funded by external borrowing.
- PWLB borrowing rates increased from assumed 3% to 5.5%, based on current standard loan certainty rate
- Utility costs increased by £0.7m per annum from the assumptions in the business case, based on latest forecasts

The assessment does not reflect any updates in income assumptions, both in terms of income growth over the 40-year period of the business case (currently experiencing an upturn in income without any significant investment compared to the business case assumptions), or in relation to the loss of income whilst the redevelopment takes place, both in the

immediate years and on-going. Assumptions in relation to operating costs, other than utility costs, remain unchanged.

- 4.3.2 The table below sets out the effect on the 'Do Something' option in the business case of the factors set out above:

	Draft FBC		Revised FBC	
	40-year £m	Average per annum £m	40-year £m	Average per annum £m
Operating Loss/Surplus (-)	-52.0	-1.3	-24.0	-0.6
Lifecycle Costs	23.1	0.6	23.1	0.6
Debt Repayments	64.9	1.6	101.8	2.5
Net Cost to NYC	36.0	0.9	100.9	2.5

- 4.3.3 The revised FBC reflects a decrease in the 40-year operating surplus of £28.0m from £52.0m to £24.0m; an average per annum reduction of £0.7m (uplift in utility costs) from an operating surplus of £1.3m per annum, on average, to £0.6m per annum.
- 4.3.4 After lifecycle costs and debt repayment costs (both principal and interest) the 40-year cost to the Council increases by £64.9m from £36.0m to £100.9m; reflecting a further uplift in costs of £36.9m (increase in debt costs associated with a higher capital cost and higher interest rates). On average this equates to a further increase of £0.9m per annum, resulting in an overall cost of £2.5m.
- 4.3.5 Whereas the draft FBC produced by KPMG identified a significant reduction in the annual operating subsidy provided by the Council following the redevelopment, from the current position of circa £2.7m to £0.9m (£1.6m or 59%), the revised FBC based on this high-level assessment only illustrates a reduction of £0.2m (7%) to £2.5m per annum on average.
- 4.3.6 The above analysis is based on averages over a 40-year period. Following the investment, the average cost for the first five years is £4.1m per annum, an uplift of £1.4m (52%) on the current operating subsidy.
- 4.3.7 The draft FBC also sets out the financial case of a 'Do Nothing' scenario. This option would not involve a comprehensive redevelopment of the HCC site. Additional capital investment over a 40-year period would be required to make necessary upgrades to the existing facility to keep it running at a 'status quo position'. Under this scenario, HCC would continue to generate an annual net loss. It is assumed that there would be an annual decline in the number of events (3% per annum), though in practice this trend has not yet materialised. The current operating cost levels are assumed to continue (revised for the uplift in utility costs of £0.7m per annum) and additional annual investment would be required to repair and replace M&E to keep the asset operational. Across the 40-year appraisal period, in nominal terms, the revised 'Do Nothing' option projects a cumulative loss of £278m, which equates to an annual subsidy from the Council of circa £7m on average, though the additional capital investment required to maintain the venue across the 40-year appraisal period (£115m of the £278m) is front loaded.

#### 4.4 Soft Market Testing / Options Appraisal

- 4.4.1 Given the absence of secured funding, the impact of closing parts of the venue during the works and the increasing construction costs of phase 1 as designed, costed and programmed, consideration needs to be given to alternative delivery options that both protect the impact on the public purse and on the local economy.



- 4.4.2 The council has recently appointed 31ten Consulting Limited (31ten) to help assess the options for the development and operation of HCC. This will involve exploring internal options as well as wider options for the future use and running of the site after engaging with developers and operators. Options may include, but are not limited to, alternative delivery and funding models, partnership working, alternative uses for parts of the site, and asset ownership.
- 4.4.3 Work undertaken to date includes reviewing the current status of HCC in terms of the physical asset and its operation and a comprehensive soft market testing exercise is now being launched with conference centre owners, developers and operators from the public and private sectors as well as interviews with councils that operate similar facilities.
- 4.4.4 The aims of this work are to understand the market's view of the HCC operation, and what can be learned from other enterprises across the country that involve the public sector. In particular this will seek views on:
- The physical asset – is the convention centre the correct use? Is the asset fit for purpose? How should it be updated to maximise its potential?
  - The operating model – should it be operated by the public sector (in house or through a company), in partnership with the private sector or be privately operated?
  - What investment would be the most critical to support HCC's effective operation?
- 4.4.5 Early review of the documentation shows there are a variety of options open to the council, including approaches that can bring in private sector investment and significantly change the operating model, all of which would have a potentially significant influence on what work should be undertaken and at what time. It is therefore 31ten's view that at this stage the phase 1 improvement works should not be progressed.
- 4.4.6 It is recommended that the soft market testing / options exercise is completed before defining a preferred option. This work is due to be completed in March 2024 after which a report will be brought back with a recommended way forward for the redevelopment project.

## 5.0 CONSULTATION UNDERTAKEN AND RESPONSES

- 5.1 Informal presentations have been given to the Harrogate and Knaresborough Area Constituency Committee (6 February 2024) and at a NYC Members Seminar (7 February 2024). The recommendations, as set out in this report, were largely well received.

## 6.0 CONTRIBUTION TO COUNCIL PRIORITIES

- 6.1 **Economic Growth** - The council's emerging Economic Growth Strategy recognises the importance of the business-based visitor economy across North Yorkshire and the key role of HCC. This perspective is strengthened in Harrogate's Destination Management Plan, targeting business and leisure events as priority for the development of the destination. High value tourism is also recognised as a key priority for developing resilient places in the York and North Yorkshire LEP. Appropriate and necessary investment in HCC will support these aims.
- 6.2 **Carbon Reduction** - Investment in HCC will contribute to the council's Climate Change Strategy, as detailed in paragraph 12 below.
- 6.3 **Providing value to the tax payer** - by reducing or eliminating the subsidy to HCC.

## 7.0 ALTERNATIVE OPTIONS CONSIDERED

- 7.1 **Enter into contract for the works** (not recommended). Whilst entering into the construction contract at a total cost of £57.2m would address many of the challenges currently being faced

by HCC, it is not considered to be affordable and would involve shutting large parts of the venue down for significant periods of time. This would put at risk over £14m of forward bookings, result in the loss of current customers (possibly for good) and make attracting new business extremely difficult.

7.2 **Do not enter into contract and await the outcome of the SMT** (as recommended in this report)

7.3 **Doing nothing** (not recommended). This is not a viable option as it would result in further decline of the building's facilities impacting upon the HCC operation. No investment will result in HCC continuing to generate an annual net loss, and this loss would likely increase. This is primarily due to an anticipated decline in the number of events, continuation of current operating cost levels and additional annual 'reactive' investment to repair and replace MEP as and when it fails, to keep the asset operational and compliant. This would have a detrimental impact on the economic performance of Harrogate and the wider region.

## **8.0 IMPACT ON OTHER SERVICES/ORGANISATIONS**

### **8.1 Strategic Property**

8.1.1 Harrogate Convention Centre is an ageing asset with many mechanical, electrical and plumbing (MEP) systems in need of repair and replacement. Work is required to reconfigure spaces so that the asset better supports the business priorities and to improve the asset so that it provides equality of access to all parts.

8.1.2 HCC is one of the largest Carbon emitters within North Yorkshire and has associated high energy consumption and costs. It is expected that by replacing existing end of life MEP systems with modern, efficient systems that the Carbon footprint of the asset will be significantly reduced.

8.1.3 If this project is not progressed, the building will be subject to further deterioration with an increased risk of operational failure. These risks will be managed as effectively as possible in the short to medium term by careful management and prioritisation of the maintenance / lifetime costs budget. This will ensure the continued safe operation of the venue and compliance with health and safety requirements. In the medium to longer term essential repairs are required to HCC to continue its operation and therefore to do nothing is not an option.

## **9.0 FINANCIAL IMPLICATIONS**

9.1 As set out in the Financial Update at section 4.3, the modelled financial position following the proposed investment has worsened since the FBC was drafted. This reflects the £8m (16%) uplift in the estimated scheme cost from RIBA stage 3 to stage 4 and the consequent additional cost of borrowing, compounded by higher interest rates (previously assumed rates of 3% compared to current rates of circa 5.5%), and that an application for Levelling Up Funding of £20m was not successful. Energy prices have also increased significantly in the intervening period, and this is reflected in the revised position.

9.2 The table at paragraph 4.3.2 sets out the revenue cost to the Council after the proposed investment, both over the 40-year period of the business case and for an average year. On average the annual cost is estimated to be £2.5m, a worsening from the £0.9m in the original business case. This is a marginal improvement on the current subsidy of £2.7m, however would require the significant investment of £57m to achieve.

9.3 Added to this is the risk that the capital cost will escalate through the lifetime of the scheme (as has happened throughout the design phases), resulting in the need for further borrowing

and the added cost of servicing more debt that will have to be met regardless of HCC's future financial performance. This risk stems from rising construction costs generally but also because of the complex nature of the scheme, which involves significant structural interventions and complicated sequencing of work, that has the potential to add to the programme as planned events compromise progression of the scheme, with a resultant cost increase.

- 9.4 The business case is also very sensitive to the level of lettings income delivered by the business and is predicated on growing income as HCC pivots its business to more lucrative conferences. However, the improved financial position following investment, albeit now very marginal, does not reflect the loss of income that will inevitably happen as the capital works are delivered. The proposal is for the works to be delivered over a three-year period to minimise the disruption to the business, however it would still involve shutting large parts of the venue down for significant periods of time. In addition to this loss of income, there is also the risk that events will move to other venues either permanently or for long periods of time, again with a detrimental effect on the financial projections. This is before we factor in the likely increased competition over the appraisal period and the potential loss of business as a consequence.
- 9.5 Taking all the above factors into consideration there is a strong risk that the financial position after the proposed scheme is implemented would be worse than the current position. As set out in paragraph 4.3.6, the business case also suggests that in the first five years following the investment the average annual cost is £4.1m, a 52% uplift on the current operating subsidy. This is clearly unaffordable in the short term given the overall financial position facing the Council.
- 9.6 Paragraph 4.3.7 sets out the business case for a 'Do Nothing' option, modelled on no upfront investment in the HCC venue. This scenario sets out a financial position that is significantly worse than the current position and the redevelopment option, as the business is unable to pivot its business, with the increased risk of operational failure. To do nothing is therefore also not an option, and investment options need to be considered that are affordable in the short term and deliver an improvement in financial performance in the medium to long term, whilst protecting and growing the economic impact HCC drives to the Harrogate area and surrounding region.

## **10.0 LEGAL IMPLICATIONS**

- 10.1 The contract provides for Early Contractor Involvement (ECI) during which period the contractor undertakes the detailed design and submits a firm price to the council for all of the works. After the council has received this information the ECI procedure provides that the council will notify the contractor of its decision as to whether it wishes to proceed with the works by 28 March.
- 10.2 Unless the council instructs the Project Manager to issue a notice to proceed with the works then the works are removed from the Works Information in the contract, meaning that they are not part of the contract for the contractor to carry out and the contract can be terminated by the council. Removing the works and not proceeding with the contract is not a compensation event, entitling the contractor to further sums.
- 10.3 If the contract is terminated, the council must pay the contractor for the activities it has performed in accordance with the contract up to the date of termination. In these circumstances, the contract also acknowledges that the council might seek to re-tender the whole of the works. To enable this, the contracts contain a wide copyright licence for the council to use the designs and documents which have been produced by the contractor if the redevelopment is taken forward in a different way. In addition, the contractor must ensure

that the benefit of any sub-contracts it has with designers are transferred to the council and can be further transferred to any subsequent contractor who builds to those designs.

## **11.0 EQUALITIES IMPLICATIONS**

- 11.1 There are several barriers to current equitable access that result in HCC only just being able to meet accessibility compliance requirements. The redevelopment project is seeking to improve standards to ensure mobility impaired workers and visitors have equitable access to HCC and to improve the visitor experience. It is hoped that this can be achieved over the longer-term.

## **12.0 CLIMATE CHANGE IMPLICATIONS**

- 12.1 Investment in HCC will contribute to the council's Climate Change Strategy by helping to ensure that the buildings and events are as energy efficient as possible. The council is committed to reducing its carbon emissions and has an aspiration to achieve net carbon neutrality by 2030, or as near to that date as possible. HCC's MEP systems have received little investment over their 40-year life and are generally approaching or already beyond technological obsolescence, resulting in excessive energy consumption, much reactive 'fire-fighting' repair and high costs to maintain the asset and service events. Investment over the longer-term will ensure that sustainable energy and low carbon technology is embedded in future redevelopment plans.

## **13.0 PERFORMANCE IMPLICATIONS**

- 13.1 Even with HCC's improved sales strategy and the increase in income being achieved as a result, inefficient and failing MEP, lack of breakout spaces and unsatisfactory access continue to hamper the venues' ability to become cost-neutral and grow its economic impact. The redevelopment project seeks to address each of these issues over the longer-term to significantly enhance performance.

## **14.0 CONCLUSIONS**

- 14.1 Investment in HCC is necessary in order to turn around the financial performance of the venue, not only to support the convention centre business itself, but to ensure that it can continue to deliver town centre economic growth and regeneration ambitions and serve as a key driver of the Harrogate and North Yorkshire economy. Investment is also needed to improve the venue's energy efficiency.
- 14.2 The construction costs have continued to rise as the project has developed, with the firm tendered cost for phase 1 now at £57.2m.
- 14.3 No external funding has yet been secured, thus increasing the pressure on the affordability of the project.
- 14.4 Interest rates and costs of borrowing have increased significantly during project development. The draft FBC prepared by KPMG assumed PWLB borrowing rates of 3%, whereas rates are now circa 5.5%. This adds circa £37m in borrowing costs over the 40-year period of the business case. Utility costs have also increased by £0.7m per annum, based on latest forecasts, since the FBC was drafted, though they are forecast to fall.
- 14.5 Phase 1 is currently programmed to last three years and would entail shutting large sections of the venue for up to 15 months at a time. HCC currently has over £14m of forward bookings, and this income would be at significant risk if parts of the venue were to close. Current customers would be lost (possibly for good) and attracting new business would be challenging during the works.

- 14.6 As a result, NYC Finance, HCC Management Team and 31ten have confirmed that they are not supportive of entering into the contract for £57m.
- 14.7 HCC requires investment, but in a phased way that allows the venue to continue operating, and so it is recommended that alternative options are explored. Indeed, the decision not to enter into the current construction contract does not restrict any investment in the future, rather it allows time to consider all options, including feedback from the marketplace, before reassessing the best way to progress.
- 14.8 It should be noted that the contracts with BAM and Arcadis contain a wide copyright licence for the council to use the designs and documents which have been produced by the contractor if the redevelopment is taken forward in a different way, and that the investment to date will not be lost.
- 14.9 Delay in investment does however pose a risk in terms of potential MEP and facility failure so urgent works will need to continue to be managed and prioritised.
- 14.10 A report will be brought back to Executive to report on the outcomes of the soft market testing exercise and options appraisal and to recommend an alternative planned investment programme for HCC.

## **15.0 REASONS FOR RECOMMENDATIONS**

- 15.1 The final costed designs and programme for phase 1 works have now been received and the council has until 28 March to accept this firm price contract.
- 15.2 Officers do not support entering into this contract, largely because:
- a) the project is deemed unaffordable due to the increased construction price estimate, absence of secured external funding, and the fact that the assumptions in the draft business case are already out of date (in particular, interest rates and the cost of borrowing and energy costs);
  - b) large parts of the venue will have to be closed for significant periods of time during the three-year construction programme putting events and future bookings at risk.
- 15.3 However, it is clear that investment in HCC is necessary in order to turn around the financial performance of the venue, improve its energy efficiency and ensure that it can continue to serve as a key driver of the Harrogate and North Yorkshire economy.
- 15.4 A soft market testing exercise is now underway to consider alternative delivery options that both protect the impact on the public purse and on the local economy. This work will help to define a preferred, more affordable option and phased delivery that allows the venue to continue to operate.
- 15.5 Delay in investment does however pose a risk in terms of potential MEP and facility failure so urgent works will need to continue to be managed and prioritised until a longer-term solution is agreed.

## **16.0 RECOMMENDATIONS**

16.1 The Executive are asked to:

- i) Note the outcome of the final tendered price and programme for phase 1 of the redevelopment project for HCC.

- ii) Agree not to progress with the £57m construction contract for phase 1 improvements noting that by not accepting this contract this is not an end to investment in HCC.
- iii) To await the outcome of the SMT and options appraisal in Spring 2024.
- iv) Subsequently re-appraise the options noting the importance that the HCC site has on the economic GVA for Harrogate whilst being mindful upon the impact on the public purse and providing best value to the NY taxpayer.
- v) Pending the outcome of (iii) and (iv) above, to consider a planned improvement programme for HCC concentrating upon essential, timely building requirements with a commercial approach to future working.
- vi) Continue to establish, monitor, and manage asset risk until a longer-term solution is agreed.

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*February 2024*

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**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix A – Equality Impact Assessment Screening Form  
Appendix B – Climate Change Impact Assessment

Note: Members are invited to contact the author in advance of the meeting with any detailed queries or questions.