Report To:	**STRATEGIC PLANNING AND CAPITAL MONITORING PANEL**
Date:	9 July 2018
Reporting Officer:	David Moore, Interim Director of Growth
Subject:	**VISION TAMESIDE PHASE 2 (TAMESIDE ONE) COMPLETION PLAN**
Report Summary:	Vision Tameside is a flagship development for Tameside aiming to provide much need economic growth and investment in the Borough's young people. The pioneering project comprises of a new 7,000 m2 Advanced Skills Centre for Tameside College, a new Joint Public Service Centre for Tameside Council and its partners and retail space for Wilko's. Based on Wellington Road, Ashton-under-Lyne, on the former site of the Tameside Council administration building, the new Joint Public Service Centre will also provide residents with more cost effective and customer friendly facilities under one roof. Vision Tameside will bring thousands of new staff and students to the town centre, boosting the retail economy. At the inception of the project an independent economic analysis identified that it will bring £300million of economic growth to the area through the creation of jobs, increased apprenticeships and increased footfall to shops and retailers. Replacing the ageing Council administrative building, which was too large, no longer fit for purpose and too expensive to run, with a smaller building incorporating the latest energy-saving technology and shared with partners, is expected to save taxpayers £1.5million a year. Work has been ongoing to ensure that our original vision of additional employment and investment in the young people in the Borough is realised despite the unfortunate collapse of Carillion. In doing so we would secure work for the local supply chain and deliver on our pledge for apprentices working on the development to be able to complete their apprenticeships. Following the liquidation of original building contractor Carillon, the Council moved swiftly to agree that Robertson's replace Carillion and the LEP entered into an early works agreement to undertake necessary due diligence and to secure the employment of key construction staff and bring subcontractors back on site. By moving the project forward Vision Tameside will be one of the first public sector projects of its scale affected by Carillion's liquidation to have agreed arrangements to completion, with similar projects reporting delays of up to two years. This report outlines proposals for completing the Vision Tameside Phase 2 (VTP2) project, following the appointment of the Official Receiver as liquidator to Carillion plc, who were

contracted by the LEP to deliver the VTP2 project. The LEP and Robertson Construction Group, and have worked with original sub-contractors to review the remaining work required to complete the Vision Tameside Phase 2 project, with a view to remobilising the site to enable the completion of the construction project. This report seeks Executive Cabinet approval of the approach set out therein and a recommendation to Council to vary the Capital Programme to provide additional funds to complete the project, some as a consequence of the Carillion liquidation and the remainder which would have been required at this stage to complete the project.

Previous reports to Executive Cabinet have explained the strategic importance of the Vision Tameside Phase 2 project, emphasising that the move is part of a wider strategic asset management plan to invest in retained civic buildings across the Borough whilst most importantly noting the strength of the strategic, economic and commercial business case for the development in the interests of creating a thriving borough and opportunities in particular for our young people.

The Strategic Business Case was reviewed independently by Genecon (a nationally recognised company specialising in economic development and place making) and confirmed that the project could generate net additional Gross Value Added benefits with a net present value of over £140 million, over a 30 year project lifetime.

The programme includes the demolition of the previous Council administration building (which was 70% larger than required for staff and partners), and had a maintenance backlog of £4million, with a further £8million expected cost for refurbishment. The site is being redeveloped to include the proposed Advanced Skills Centre for Tameside College as well as a Shared Service Centre for the Council and its partners and new retail premises (proposed to be leased to Wilkinson's).

The development is expected to bring additional footfall and vitality into Ashton Town Centre and will secure the future of Tameside College as well as improving the provision of skills and supporting growth and regeneration across Tameside.

The LEP has worked with Robertson and their sub-contractors to review the remaining packages of work, and to determine the additional costs of re-mobilising the site and completing the programme. The costs have been independently verified by Cushman and Wakefield, construction management specialists to check that the costs provide "value for money" and the costs outlined in this report are believed by the LEP and its advisers to be as complete a representation of the costs to be incurred to complete the project as is possible in the circumstances presented by the collapse of Carillion.

This report is asking Council to agree proposals set out in the report and to allocate additional budget to complete the Vision Tameside Phase 2 project, particularly given the strategic importance and expected benefits that the project is expected to bring to the Borough.

Recommendations:	That Panel Members note the following recommendations approved by Executive Cabinet at its June 2018 meeting: 1. Notes that the LEP entered into an early works Agreement with Robertson Construction Group to enable due diligence to be undertaken and has remobilised the site to enable the completion of the Vision Tameside Phase 2 construction project and the LEP has submitted a proposal to the Council (dated 1 June 2018) outlining its plans to complete the Vision Tameside Phase 2 construction project. 2. Recommends to Council that an additional budget allocation of £8.289m from the Capital Programme for the Vision Tameside Phase 2 project from resources available to the Council, pending the outcome of a bid for additional Skills Capital funding to GMCA. 3. Recommends to Council a provisional risk and insurance budget up to £1.100m to manage any residual contract risk such expenditure to be approved by the Director of Finance subject to final due diligence; and 4. Authorises the Director of Growth in consultation with the Borough Solicitor, to negotiate and approve the final terms of all associated agreements and oversee the delivery of the project to completion within the approved funding and to submit bids for external funding towards the additional costs of the project as appropriate.
Links to Community Strategy:	Prosperous Tameside
Policy Implications:	In line with approved policy
Financial Implications: **(Authorised by the Borough Treasurer)**	The Vision Tameside Phase 2 project to build the new Tameside One building in the centre of Ashton is expected to require a further £9.4m additional as a result of the Carillion collapse and need to engage with a new contractor to complete the works. Within this amount there are a number of provisional sums, contingencies, risks and insurance allowances to mitigate the risk of further cost requirements. Section 4 details the financial position. Total risk allowances and contingencies within the project are: • £75k unspecified provisional sums within the contract • Robertson contingency of between 2-5% (c£250k) • A contingency, risk mitigation and insurance fund of £1,687k In addition to the cost to complete the building, the delay to the completion of the construction phase and the prioritisation of effort to restart the programme has resulted in the delay of the recant phase of the project to move staff in to their long term accommodation. A recant plan is being developed, but as this is not yet finalised, there are risks that the buildings due to be vacated once the Tameside One building opens may still be required for further occupation. This would result in revenue costs being incurred in the form of running costs and extended

leases.

The savings made from the exit of such buildings were intended to be used to fund the running costs of the new building. It currently costs £526K per annum to operate Two Trees, Margaret Street, Shirley House and Clarence Arcade. These costs were due to be released once Tameside One was operational. If progress is not made on these there will be a recurrent revenue shortfall of £322K per annum that will have be found from making savings in other areas. The sale of the Two Trees site is budgeted to release a significant capital receipt, which is required to fund the capital programme.

In addition, it is unclear as to the exact recant costs and the extent of work required on the buildings which staff from Two Trees, Clarence Arcade and Shirley House in particular are going to be placed.

Legal Implications:

(Authorised by the Borough Solicitor)

Clarity will need to be provided going forward in respect of Public Realm and Recant costs, accepting that the Public Realm costs were always outside this project's financial envelope. Once the contract is resolved and the building programme back on track, it will be necessary to address the recant plan expediently to ensure service delivery, and estate costs for service delivery going forward. Contract changes are expected to only reflect minor changes of revised costs and programme delivery using insurance to manage any contingent risks.

The early works agreement between the LEP and Robertson's enabled due diligence to be carried out and remobilisation on site to continue works. The early works analysis is fundamental to the insurance contingency of £1.1m and how this will be used to ensure any contingent building risks are managed into the future as Carillion's demise affects the latent building defect warranties provided by them, which will now have little or no value. Clearly, the effect of not agreeing additional capital and a way forward would be to create additional cost and risk to the Council as well as failing to achieve the economic outcomes this project seeks to achieve for taxpayers. That said the revised capital requirement for this project requires the whole capital programme to be reviewed to ensure it remains affordable and the legal obligation to achieve a balanced budget. Once the construction phase has been approved and funding agreed. A further report on the operation of the whole administrative estate will need to be presented to Executive Cabinet outlining the recant strategy

Risk Management:

The primary risks associated with scheme are set out in the report.

Access to Information:

The background papers relating to this report can be inspected by contacting the report writer: Ade Alao, Head of Investment and Development.

Telephone: 0161 342 2795

e-mail: ade.alao@tameside.gov.uk

1. INTRODUCTION

1.1 In previous reports in October 2013 and February 2014, the Council agreed to the development of the second phase of the Vision Tameside project, which was to include the demolition of the TAC building in Ashton and the redevelopment of the site to accommodate the proposed Advanced Skills Centre, office development and permit the relocation of Clarendon College from Hyde into Ashton and support the development of Ashton Market Square as well as the new Transport interchange and extension of the Metrolink to Ashton.

1.2 The project was part of the Council's wider strategic asset management plans (agreed in 2012) to reduce the amount of surplus buildings and invest in the retained Civic buildings in Audenshaw, Denton, Hyde, Dukinfield, Mossley, Stalybridge, including plans for the new £7.5 million Greater Manchester Pension Fund building in Droylsden as well as plans for the redevelopments in Ashton Town Centre.

1.3 In February 2014, the Council noted that the strategic business case was reviewed by Genecon, a nationally recognised company specialising in economic development and place making, who confirmed that the Vision Tameside programme had a sound Strategic, Economic and Commercial business Case. The business case pointed out the need to invest further in Further Education, to improve the skills and learning facilities in the Borough. The programme will bring state of the art college facilities into Ashton Town Centre and increase the number of learners staying in Tameside.

1.4 The report also pointed out that the previous TAC building in Ashton under Lyne cost circa £2million per year to run, including day to day repairs. The building was 70% larger than required for staff and partners, and was facing a cost of £4million repairs to maintain health and safety requirements as well as a further £8 million cost of refurbishing toilets, kitchens flooring, decoration, roofing repairs and costs to improve Disability Discrimination Act access requirements.

1.5 The economic business case in the report highlighted that the programme was expected to generate net additional GVA benefits of over £140million over a 30 year project lifetime, including additional employment from the construction and additional staff employed in the College and in retail, as well increased expenditure in local businesses and the town centre.

1.6 Vision Tameside Phase 2 incorporates the creation of a new Shared Service Centre for the Council and its partners, a new Advanced Skills Centre for Tameside College as well as additional retail space. Executive Cabinet authorised the award of a construction contract for the VTP2 project on 29 June 2016.

1.7 In November 2016, the Council entered into a Design and Build contract with Inspired Spaces Tameside Limited (known as "the LEP") and the LEP simultaneously entered into a subcontract with Carillion Construction Limited to act as main contractors to deliver the Vision Tameside Phase 2 project.

1.8 However, on 15 January 2018, without warning and with much surprise to the financial markets, the High Court appointed the Official Receiver as liquidator of Carillion Plc and some associated companies on the petition of the company's directors. The Court also appointed PwC as special managers to support the Official Receiver in managing the affairs, business and property of the companies.

1.9 Carillion was a major supplier to the public sector in addition to its work in Tameside and was delivering over 450 contracts at the time of its liquidation. In total, the company owed around £2 billion to its 30,000 suppliers, sub-contractors and short-term creditors who risk getting nothing back from the liquidation.

1.10 On 7 February 2018, Executive Cabinet acknowledged that the LEP had terminated the subcontract with Carillion Construction Limited, and intended to enter into an Early Works Agreement with Robertson Construction Group Limited to allow for due diligence works and remobilisation of the site to complete the building works agreed under the main contract between the LEP and the Council and to approve the replacement of the Building Contractor in the Main Contract. Executive Cabinet agreed to receive a further report once the due diligence work is completed under the early Works Contract to advise on the cost position and the terms being sought by the LEP under the new subcontract with Robertson to secure the completion of the Vision Tameside Phase 2 construction project and understand the cost and programme implications for the Council.

1.11 This report therefore presents a progress update since the Executive Cabinet decision in February 2018 and attempts to provide a more holistic financial position for the whole project and provides the financial summary based on the LEP Proposal and other known costs.

2. PROGRESS UPDATE

2.1 All construction work on the site of the VTP2 project stopped following the announcement of the liquidation of Carillion on 15 January 2018. The immediate uncertainty meant that all the sub-contractors chose to suspend work, pending further clarification of the situation.

2.2 The LEP signed an Early Works Agreement with Robertson Construction Group Limited on 13 February 2018, initially for an 8-week period and the LEP subsequently advised the Council that it had signed further variations to extend the Early Works Agreement until 2 July 2018.

2.3 The LEP has worked with Robertson and their sub-contractors to review the remaining packages of work, and to determine the additional costs of re-mobilising the site and completing the programme.

2.4 Cushman & Wakefield were appointed as the Council's Independent Client Advisers to undertake Value for Money Assessments and Project Monitoring. A process has been established whereby Cushman & Wakefield carry out an independent review of each individual sub-contractor package submitted by the LEP and make recommendations to the Council before approval. 24 sub-contractor packages have been approved to date.

2.5 The costs have been independently verified by Cushman & Wakefield, to check that the costs provide "value for money" and the costs outlined in this report are believed by the LEP and its advisers to be as complete a representation of the costs to be incurred to complete the project as is possible in the circumstances presented by the collapse of Carillion.

2.6 The site has now been remobilised with the full complement of the site team in place and all health and safety arrangements, including plans, signage and audits completed. A number of sub-contractor work packages have recommenced including roofing, cladding and M&E. Other work packages are due to commence over the coming weeks.

2.7 Three payment applications have been submitted by the LEP to date. One application has been certified and paid, the second application has been certified and the third application is currently being reviewed by Cushman & Wakefield before a recommendation is made to the Council.

2.8 The additional budget allocations requested in this report are based on the work undertaken by the LEP, Robertson and its sub-contractors, with contingencies built in, as is normal for major projects of this size, to allow for unforeseen cost over-runs. The budget allocations are explained below, in paragraph 4.1 The Council, the LEP and Robertson will work closely together through various project-related governance meetings to ensure that any cost over-runs are minimised and any un-used contingencies will be retained within the Council's budgets.

2.9 It should also be noted that the Council is currently expecting to contain the costs of moving back into the new Tameside One building ("recant" costs) within other specific identified capital and revenue codes.

3. LEP PROPOSAL

3.1 The LEP Proposal for completing the construction works was submitted to the Council on 1 June 2018.

3.2 The LEP Proposal has been considered by the Council and its Independent Client Advisers, Cushman and Wakefield and it is following their assessment (para 7 refers) and recommendation that the recommendations for a final sum to complete the project are being made in this report.

4. FINANCIAL IMPLICATIONS

Table 1 below summarises the budget position for the whole VTP2 programme, showing a requirement of £9.389m to complete the project. The key headlines are summarised as:

a. At the time of Carillion's liquidation the total construction budget was £38.925m, following a number of change orders that had taken place since the start of the project.

b. Costs in relation to the project of £32.247m have been incurred to date.

c. The Robertson cost to complete is £13.52m, and includes a number of contingencies of between 2% and 5% depending on the risk of the sub-contract package.

d. On review of the contract, and due to the change of contractor, there are some elements that require change for which a provisional sum of £0.5m in relation to the Robertson contract and £0.140m of extra costs incurred with the LEP.

e. This results in a shortfall against the construction element of £7.741m.

f. Demolition costs have mostly been incurred but a provisional sum of £0.075m has been included for the final tidy up.

g. There are additional costs outside the LEP contract that will result in further cost pressures of £0.522m. These include:
    i. Cushman and Wakefield cost consultancy - £0.128m
    ii. Public realm works that have been excluded from the LEP contract to be completed by the Council - £0.329m
    iii. Works for the café facilities - £0.015m
    iv. This is offset by releasing a £0.05m contingency for Dark Ground.

h. Project contingencies, risk management reserve and insurance to limit risks and further financial liability

Budget Heading	Approved Budget	Latest Invoiced Cost Position 20/4/18	Remaining budget	Additional Cost to Complete plus Other Programme Costs	Total Projected Costs	Variance under spend/ over spend
	(£000)	**(£000)**	**(£000)**	**(£000)**	**(£000)**	**(£000)**
Construction Contract	38,425	32,006	6,419	-	32,006	-6,419
Construction Agreed Change Orders	500	230	270	270	500	-
Robertson Cost to Complete	-	11	-11	13,509	(c) 13,520	13,520
Additional LEP Costs to Complete	-	-	-	640	(d) 640	640
Total Construction Cost	**(a) 38,925**	**(b) 32,247**	**6,678**	**14,419**	**46,666**	**(e) 7,741**
Demolition	3,298	3,249	49	(f) 75	3,324	26
Total Construction and Demolition Costs	**42,223**	**35,496**	**6,727**	**14,494**	**49,990**	**7,767**
Project Costs Outside of LEP Contract	10,581	5,424	5,157	5,679	11,104	(g) 522
Project Costs Before TMBC Contingency	**52,804**	**40,920**	**11,884**	**20,173**	**61,094**	**8,289**
Contingency Risk Management and Insurance	587	-	587	1,687	1,687	(i)1,100
Total Project Costs	**53,392**	**40,921**	**12,471**	**21,860**	**62,781**	**9,389**

4.1 The Council's currently approved £185m capital investment programme in the borough is fully funded and is currently supported by the sale of surplus assets. Capital receipts of over £55m are required to be realised to allow the programme to be fully funded. Clearly a revised budget required for this project as a consequence of the Carillion collapse will leave a funding shortfall on the programme. This can only realistically be closed by either realising more capital receipts or reducing other elements of the programme. The current capital programme has around £65m earmarked to schemes, which are having full business cases developed and have yet to be approved and therefore requires reviewing.

4.2 It is imperative that the VTP2 programme is completed and that funding for up to a maximum of £9.4m will be required. It is proposed that a review of the whole capital programme is brought back to the next Executive Cabinet on 25 July 2018 to consider a revised capital programme that allows the VTP2 programme to be completed within the resources available.

4.3 Once the construction phase has been approved and funding agreed. A further report on the operation of the whole administrative estate will need to be presented to Executive Cabinet outlining the recant strategy.

5. EXTERNAL FUNDING IMPLICATIONS

5.1 The Council received a formal funding agreement from the Greater Manchester Combined Authority (GMCA), dated 13 September 2016, for £4.06m Skills Capital funding.

5.2 The Council has now claimed £4.0m towards the construction costs and will continue to submit quarterly claims to the GMCA until the project is complete. These quarterly claims will seek to recover the fees of the GMCA's independent Project Monitor.

5.3 GMCA has already been notified that the Council will be seeking additional Skills Capital funding once final costs are established. It is recommended that the Director of Growth is authorised to submit a bid for additional Skills Capital funding to GMCA for the additional costs of the College element of the project.

6. PROGRAMME

6.1 A detailed construction programme has been provided by the LEP and some key points to note in relation to the programme are:

a) The programme remains provisional until the completion of formal contracts.

b) There is an overall delay of at least 6 months to the practical completion of the construction contract.

c) A two or three week demobilisation period will be required following practical completion of the building, to allow for dismantling the site compound, making good of the external areas and completing works to provide safe temporary access and servicing to the building.

d) A phased recant period will commence following demobilisation for a period of up to 12 weeks and will be coordinated with the Council, the College, Wilkinson's and other occupiers within the Council's demise.

e) Work to commence the phased delivery of permanent public realm works around the building will start once the phased recant has been completed.

6.2 An updated programme will be reported to the next meeting of Executive Cabinet on 25 July 2018.

7. VALUE FOR MONEY ASSESSMENT

7.1 Cushman & Wakefield have been appointed as Independent Client Advisers to provide independent assurance for the Council, Value for Money advice and have been retained to act as project monitor until project completion.

7.2 Cushman & Wakefield have provided an opinion on the overall value for money of the LEP proposal to the Council and in conclusion state:

> *"In the circumstances, we consider that the proposal to engage RCG [Robertson Construction Group] will provide a reasonable level of value for the completion of this project. The margin added to sub-contractor packages is around the average and so represents good value for money, providing of course that the base costs to which the percentage is applied are proactively managed by the LEP and RCG. so far we consider that the LEP and RCG have worked hard to minimise the impact of Carillion's demise on the project cost. Most of the sub-contractors employed by Carillion have been re-engaged, which has a significant benefit in terms of project knowledge, and warranties where these are applicable.*

An alternative procurement method would have been to re-tender the outstanding works to complete the building. Whilst this would have enabled a definitive test of current market pricing, there would have been significant delays before the project could have re-started due to the time required for:

- *re-evaluation of designs and co-ordination between packages;*
- *tender documents to be prepared;*
- *assessment of the returned tenders;*
- *lead-in periods.*

Because an alternative approach would have extended the programme to that currently being followed, there would be no guarantee that seeking competitive tenders would have resulted in a reduced cost to complete, due to:

- *costs in preparing tender documents;*
- *inflation over the period of the tender and acceptance process;*
- *an industry wide shortage of skilled labour;*
- *the strong likelihood that main contractors would still want to retain most of the previously engaged sub-contractors, who in turn would potentially be taking on alternative work in the meantime and thus charge a premium or even turn down the opportunity to tender*

9. RISK ASSESSMENT

9.1 The primary high-level risks, impacts, and mitigation to the project are set out in the table below:

Risk	Impact	Mitigation
Financial	Inability to fund the additional costs required to complete the project.	• Approval of additional funding including prudent allowance for contingency • Bid for additional Skills Capital funding to GMCA
Community and Stakeholder	Reputational damage with the local community and stakeholders.	• Approval and implementation of revised project communication plan
Economic	Non-realisation of the anticipated economic benefits from the project.	• Completion of the project will safeguard that the benefits are realised
Education	Major disruption to Tameside College's operations for the 2018/19 academic year.	• Contingency planning with Tameside College to minimise disruption

10. COMMUNICATIONS

10.1 A revised Project Communication Plan is currently being developed to ensure that there is clear, consistent and transparent messaging for all internal and external partners.

11. CONCLUSIONS

11.1 The liquidation of Carillion on 15 January 2018 has had major cost and time implications on the delivery of the VTP2 construction project. Carillion owed around £2 billion to its 30,000 suppliers, sub-contractors and short-term creditors who risk getting nothing back from the liquidation

11.2 The Council has moved swiftly to request proposals for the remobilisation and completion of the project and VTP2 will be among the first public sector projects of this scale affected by Carillion's liquidation to have an agreed route to completion. Other similar projects are reporting projected delays of 1 to 2 years.

11.3 The overall delivery has been delayed by at least 6 months with additional costs currently assessed as £8.289m. A risk and insurance provision of up to £1.1m may also be required subject to final due diligence.

11.4 The approach outlined in this report represents the most satisfactory course of action for the Council to pursue to achieve the earliest possible completion of the VTP2 project.

12. RECOMMENDATIONS

12.1 As set out at the front of this report.