

## **Background Information Report**

### **Report by Executive Director (Housing & Environment)**

This report provides a summary of the rationale behind previously agreed decisions in relation to Perth City Hall, along with the work undertaken to date on the project. It also outlines that it is a critical stage of implementation and is therefore one of 5 projects the Council is being asked to take a decision on, in advance of the development of the Investment Blueprint.

#### **1. BACKGROUND / MAIN ISSUES**

- 1.1 Perth City Hall has an approved budget of £23M in the current capital programme and received Council approval to proceed in June 2016 (see para 1.6, below) (Report No. 16/279 refers). Pre-Covid, it was scheduled to open early-mid 2023. £3M of the approved budget is for public realm works surrounding the building. Prior to 2016, a number of alternative proposed uses for City Hall were considered by the Council but were unviable for various reasons although cultural use had been identified as a possible future option. Historic Environment Scotland had consistently refused permission to demolish the building.
- 1.2 The original Strategic Outline Case to redevelop Perth City Hall into a museum attraction of national and UK significance was built on independent market appraisal commissioned in 2013/14, with findings presented to Council in October 2014 (Report No. 14/438 refers). The appraisal found Perth city was substantially underperforming as a visitor destination in comparison to other parts of Eastern Scotland, and Highland Perthshire.
- 1.3 A key finding was the decline from 2011 of almost 25% in local visitors to cultural attractions in Perth. Local visitors are defined as living within 30 minutes travel time of Perth. The key reason was (and remains) lack of a single headline attraction in the city centre, 'headline attraction' being defined as capable of attracting over 100,000 annual visits.
- 1.4 As well as market failure, the appraisal also identified substantial market opportunity from two sources: the Scottish/UK domestic visitor market and the international visitor market. Total potential domestic market size was assessed at 4.7M annual visits, most of which (3.6M) are Scottish residents. This is because of Perth's central location, with around 71% of the Scottish population living within 90 minutes travel time of Perth. The international visitor market was already expanding in 2014, with an increase of 33% in visits to Perth since 2011. This is largely attributable to the value of the Perthshire brand, enhanced through world class events like the Ryder and Solheim Cups.

- 1.5 Further appraisal carried out in 2016/17 to support the UK City of Culture bid for Perth also demonstrated the fragility of the local creative economy, against a backdrop where creative industry was the fastest growing UK sector contributing over £100B to the UK economy. Creative businesses in Perth and Kinross contribute only 1.2% GVA to the total Scottish creative economy.
- 1.6 Council therefore instructed officers to prepare a strategic response which would address these findings. The appraisal, plus experience elsewhere, showed no single new cultural attraction in Perth would fully address either market failure or opportunity. A set of interventions were required:
- 1.6.1 *Investment in existing attractions* as well as a potential new cultural offer;
- 1.6.2 *Cohesive marketing and programming* across key attractions which was easy for visitors to navigate and focused on Perth's unique place as the ancient capital of Scotland as well as its role in shaping modern Scotland through its artists, writers, thinkers, inventors and explorers. The strapline 'Ancient Roots, Modern Scots' was developed for this new marketing and programming approach.
- 1.6.3 *Significant change to Perth's image and perception* at the time as a heritage city rather than a lively contemporary destination.
- 1.7 The Perth Cultural Transformation Programme was the strategic response brought forward from 2015 with three key elements:
- 1.7.1 *The UK City of Culture 2021* bid approved by Council in October 2015 (report 15/417 refers)
- 1.7.2 *The bid for Perth to be a new home for the Stone of Destiny* (launched June 2016)
- 1.7.3 *Capital investment of £20M in three projects*: a new museum attraction (now City Hall, following site options appraisal); refurbishment of Perth Museum; and enabling works to create a new store for the Council museum collection, which has National Recognition Status. This investment was approved in June 2016
- 1.8 The investment objectives for the Perth Cultural Transformation Programme are to:
- contribute to a world class tourism offer of scale to grow the visitor economy in Perth, Perth and Kinross and the wider Tay Cities Deal (TCD) region.
  - diversify and strengthen the cultural tourism offer in Perth building on recent/current investment including Perth Theatre, the Black Watch Museum and Perth Creative Exchange.
  - grow the value of the creative economy in the region through jobs, training and business support for the creative sectors in Perth and Kinross
  - widen cultural participation through excellent cultural product and innovations in public programming including digital engagement, mass participation events and community co-production.
  - enhance community pride in Perth (community engagement carried out to support the UK City of Culture bid identified this as a key priority).

- 1.9 From 2017, City Hall became a proposed Tay Cities Deal project, and was included in the Heads of Terms published November 2018. It is the only cultural project in the Deal with UK Government funding attached. Since January 2017, business case development for City Hall has followed Green Book/Treasury requirements, with governance via a Programme Board chaired by the Leader of the Council and independent advisory support from Sir Mark Jones, previously Director of National Museums Scotland and now Chair, National Trust for Scotland.
- 1.10 In August 2020, the Outline Business Case for City Hall was 'greenlit' to proceed to Full Business Case and this work is now underway. Pre-Covid, visitor projections prepared for the OBC estimated between 140-160,000 annual visits to City Hall, of which around 21,000 were attributed to potential visitors to the Stone of Destiny. Clearly, COVID-19 has, and will continue to have, an impact on visitor numbers to cultural attractions world-wide. Customer confidence in safety/compliance as well as the quality of the offer is absolutely key. A re-assessment of the original visitor and income projections, and the investment objectives, will be carried out to support the FBC in October 2020 based on emerging data from the UK and internationally. A key working assumption (to be tested through the re-assessment) is that visitor levels to cultural attractions will return to pre-Covid levels by early 2024, when City Hall is now scheduled to open if the project proceeds.
- 1.11 The Commissioners for the Safeguarding of the Regalia, who are responsible for advising HM The Queen on the future location of the Stone of Destiny, have requested regular updates on the project since March 2020. The Commissioners are aware of the Council's timescales for reaching financial close on City Hall. The Council's Chief Executive has provided formal written confirmation to the Commissioners, via the Scottish Government, of the strategic importance of the project to Perth's wider economic development. The Chief Executive also commissioned a further independent review of the business case assumptions for the project from Ernst and Young, to underline the level of due diligence conducted on the project.
- 1.12 The remainder of this report summarises current project status and key risks for Council to consider should the project pause, proceed, or be cancelled.

## **2. CURRENT STATUS**

- 2.1 In order to bring the project to financial close later this autumn if Council decides to proceed, a Value Engineering (VE) exercise has been ongoing since spring 2020, overseen by the Senior Officers Group which reports to the Programme Board.
- 2.2 In May 2020, the Programme Board was advised that a realistic total project cost would be £26.2M. Significant savings have been made as part of the VE exercise; however, in the current environment, it has not been possible to maintain costs within the current approved £23M budget. In addition, some tender prices are yet to be confirmed on some parts of the build, and it is recommended that appropriate project contingency is retained to deal with

any outstanding tender cost issues. There is no specific risk sum for dealing with future COVID-19 delays or cost increases as these issues are currently unquantifiable, but total project cost is therefore estimated to be £26.5M

- 2.3 This estimate is based on achieving financial close on the construction contract in late 2020 and proceeding with a construction phase under “normal” working conditions. As with the entire PKC capital programme, COVID-19 represents a significant risk - time and cost increases as construction programmes could be extended due to various factors, including new operational requirements for public venues.

### **3. KEY ISSUES**

- 3.1 There are several key issues which may have an impact on the construction programme milestones. These are reflected in the risk profile for the project set out below, but can be summarised as follows:
- the continuing uncertainty created by COVID-19.
  - the Tay Cities Deal agreement has reached the final stages but has not yet been signed.
  - the decision of the Commissioners on the Stone of Destiny has not yet been confirmed although dialogue with Scottish Government has been ongoing.
  - as with all construction projects, there may be unexpected site issues causing delays during the construction phase. Site surveys completed to date are helping to manage this risk.
- 3.2 Subject to the issues above being resolved and Council approving the project to proceed, it is anticipated that construction could start in late 2020/early 2021 with a completion date in early 2024. .

### **4. KEY RISKS**

- 4.1 If the project proceeds, there are a number of risks for Council to consider:
- 4.2 There is a risk that COVID-19 will impact on programme timescales and costs; it is currently not possible to quantify the impact or determine risk controls. Continued strong risk management by the Senior Officer Group/Programme Board as these impacts emerge will be essential.
- 4.3 There is a risk that if the impact of COVID-19 is prolonged, visitor and income projections for City Hall will not be achieved and therefore investment objectives will not be delivered. Current risk mitigation is to re-assess the visitor and income projections, and revise the investment objectives, as part of the Full Business Case for the project.
- 4.4 There is a financial risk because the project cannot be delivered within the current approved budget of £23.2M. Value engineering has been completed to find savings, however without significantly altering the project vision and brief the estimated total project cost is now £26.5M.

- 4.5 There is a risk that the Stone of Destiny is not secured for City Hall which may impact on UK Government's view of the strategic significance of the project. It is worth reiterating that visitor projections for the Stone of Destiny alone are conservative. Current risk mitigation is to prepare an alternative display proposal; and this work was completed in 2019
- 4.6 There are also risks to the Council if the project pauses or is cancelled:
- If the project is paused, construction costs are likely to rise as delay in reaching financial close will impact on final prices
  - If the project is cancelled, there may be wider impacts/implications for the Tay Cities Deal, a key strand of which is predicated on growing cultural tourism market share across the region as a whole
  - If the project is cancelled, the risks associated with market failure first identified in 2014 will be exacerbated, and market opportunity will be lost. This may be significant given substantial investment elsewhere in the region/Eastern Scotland in cultural tourism.
  - If the project is cancelled, £2.4M has been expended on project design development to date which will have a revenue consequence for the Council.
- 4.7 A full risk assessment is attached to this report

## 5. FINANCIAL IMPLICATIONS

### Capital

- 5.1 Proceeding with the project requires additional capital funding of £3.3M.

### Revenue

- 5.2 An extract of the indicative income and expenditure forecasts prepared for the Outline Business Case required for the Tay Cities Deal and independently reviewed by Ernst & Young in December 2019, are provided below. As stated earlier, these assumptions will be re-assessed in October 2020.

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Income	1,006	1,040	1,308	1,873	1,977	1,901	1,910	2,021	1,907	1,924	2,039
Expenditure	(981)	(1,056)	(1,471)	(2,190)	(2,238)	(2,307)	(2,356)	(2,404)	(2,452)	(2,502)	(2,553)
Surplus/(Deficit)	25	(16)	(163)	(317)	(261)	(407)	(446)	(383)	(545)	(578)	(514)

## 6. CONCLUSIONS

- 6.1 Perth City Hall has been in development as a cultural attraction since 2016, when it was approved as part of the Council's capital programme.

This report outlines the key benefits of the project and risks if the project were not to proceed. These are outlined as follows

- COVID 19 – paragraphs 4.2 – 4.3
- Financial – paragraph 4.4 and 4.6 and section 5

- Stone of Destiny – paragraph 4.5
- Tay City Deal – paragraph 4.6
- Market failure - paragraph 4.6

On 7 September 2020, the Tay Cities Joint Committee agreed to advance to signing the Tay Cities Deal and the Programme Management Office is currently engaged in confirming an official signing date. The Perth City Hall project has been allocated £10m of UK Government funding as part of the Tay Cities Deal. The project has recently received approval from the UK Treasury and Scottish Government to progress from Outline Business Case to Final Business Case, a significant step in the City Deal gateway review process. The Programme Management Office has confirmed that expenditure incurred on the project to date will not be recoverable from the Tay Cities Deal should Council determine not to progress with the project.

- 6.2 Elected members are requested to take account of the information contained within this report, and the associated briefing materials, in respect of a decision on the City Hall.

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#### Approved

Name	Designation	Date
Barbara Renton	Executive Director (Housing & Environment)	23 September 2020

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### Project Summary Sheet

Project Name:	Perth City Hall		
Asset Type:	Property Asset		
Refurbishment of Perth City Hall and the surrounding public realm including vennels.			
Risk Analysis			
	Stop	Pause	Continue
Strategic	The Perth City Hall project is a UKG-funded Tay Cities Deal project part of the Cultural Transformation Programme approved by Council June 2016 to address visitor market opportunity and failure in Perth, and also a key component of the Perth City Plan -		Cultural investment is central to the Tay City Deal objectives to create smarter, fairer work for all by attracting higher value sectors and jobs to the Cities Region. The primary project objectives are economic development but there has also been strong community support for City Hall, with community engagement programmes running since 2017.
	stopping the project would impact negatively on the delivery of the outcomes from the Tay City Deal and the City Plan.	pausing the project would delay the delivery of the outcomes from the TCD and the City Plan.	
	The Perth City Hall project will allow for the redevelopment of a key city centre site -		
	Stopping the project would result in a key city centre site remaining undeveloped City Hall has been a controversial vacant site since 2004, with no viable alternative use identified until 2016.	Pausing the project would result in a key city centre site remaining undeveloped for extended period as City Hall has been a controversial vacant site since 2004, with no viable alternative use identified until 2016.	
Legal	No legal risks identified although the project is a TCD project and there may be implications for the wider Deal if PKC decides not to proceed. The project is the only cultural project to receive UKG funding within the Deal Heads of Terms, signalling its strategic significance at UK as well as national level.		No specific legal risks identified however as with all projects of this size and complexity, ongoing project risks will continue.
Financial	There has been significant expenditure on this project -		As we continue to experience the economic impacts of COVID-19 we have no definitive understanding of our revenue income streams particularly in the short to medium term. In this situation, there is a risk that we cannot afford to fund this project.
	The Council has spent approximately £2.3 million to date developing the project. This expenditure would not be recoverable from Tay Cities Deal funding if the project were stopped. Reinstating the building to a condition in which	Depending on how long the project was paused for, could result in additional revenue pressure for the Council.	

Risk Analysis				
	Stop	Pause		Continue
	it could be made accessible to the public would incur further costs.			
	This project has bid for £10M Tay Cities Deal funding from UK Government -			
	Upon signing of the Tay Cities Deal, should a project no longer be progressed the Cities Deal funding for that project remains within the Cities Deal programme. It is then a matter for the Cities Deal partners, in agreement with both Governments, to determine how the funding should be allocated.	it is unclear how this would be affected if the project was paused for a significant period		The funding model for the project relies, in part, on Tay Cities Deal contributions which are not yet confirmed until the TCD is finalised and signed.
		Increase in project cost as a result of construction inflation. The impact of COVID-19 on construction inflation remains an unknown. The figures below should be treated as indicative and are derived from the Building Cost Information Servicer current assessment of construction inflation Potential inflation has been calculated on the stage 1 design construction cost. The tender process is nearing completion and value engineering is ongoing, these costs may vary as the project progresses and costs are finalised. The cumulative construction inflation projected by BCIS, based on the stage 1 design cost, would be:		The current tenders received for the project and the total project cost do not account for any future COVID-19 impact on the construction sector, which at this stage is unquantifiable.
		2021 – 3.9%: £818,838		
		2022 – 3.8%: £1,647,796		
		2023 – 4.2%: £2,598,830		
		2024 – 4.3%: £3,613,401		
Reputational	<ul style="list-style-type: none"><li>A key part of this project has been to acquire the Stone of Destiny through a bid to the Commissioners for the Safeguarding of the Regalia –</li><li>This project is part of the proposed Tay Cities Deal</li><li>There has been extensive public consultation on this project since 2017 which has demonstrated significant national/local support and enthusiasm for the project – over 2000 people responded to the 2019 SG consultation on the Stone of Destiny, majority in favour of Perth</li><li>The City Hall is a key city centre site and a grade B listed building identified as ‘At Risk’ by Historic Environment Scotland. Prior to 2016 there had been significant discussion and controversy about proposed demolition or viable</li></ul>			There is a risk in continuing the project that we are unsuccessful in the bid for the Stone of Destiny.



Risk Analysis			
	Stop	Pause	Continue
	alternative use <ul style="list-style-type: none"><li>There has been significant spend to date on the Project (£2.8M)</li></ul>		
	Stopping the project would result in the withdrawal of the bid for the Stone of Destiny which would cause reputational damage to PKC and potentially SG.	Pausing the project would likely mean the bid for the Stone would not succeed.	
Economic	There are significant positive economic impacts anticipated directly from the City Hall project and wider Cultural Transformation Programme– <ul style="list-style-type: none"><li>220,000 visitors annually to City Hall and Perth Museum and Art Gallery (160,000 to City Hall)</li><li>50,000 visitors annually to touring exhibitions at City Hall</li><li>Visitor GVA for Perth and Kinross: £2.9M</li><li>Visitor GVA Scotland: £1.24M</li><li>Visitor expenditure Scotland: £49M</li><li>Visitor expenditure UK: £88M</li><li>Visitor expenditure overseas: £129M</li><li>54 FTE new jobs at City Hall (34 FTE at City Hall &amp; construction jobs)</li></ul>		The economic assumptions were made in a pre-COVID-19 world. These will be revised in Sept 2020 factoring in emerging data from UK and international museum attractions which have now re-opened. Independent advice is a reasonable working assumption is that visitor levels will have returned to pre-Covid levels when the project opens in 2024. .
	if the project is stopped, these will be lost, exacerbating the impact of COVID-19.	if the project is paused these will be delayed, exacerbating the impact of COVID-19.	
	This project is a key part of the Perth City Plan -		
	stopping the project will impact on the positive outcomes of the City Plan	pausing the project will impact on the positive outcomes of the City Plan	
	There are significant positive economic impacts anticipated directly from the construction of the PCH together with also social value through community benefits/PK Offer		
	if the project is stopped, these will be lost, exacerbating the impact of COVID-19.	if the project is paused these will be delayed, exacerbating the impact of COVID-19.	
Staffing	There are 2 PKC staff including a Graduate Trainee funded by the capital plan which includes the City Hall project		There are no staffing risks associated with continuing the project.
	Stopping the project may impact on these posts.	Pausing the project may impact on these posts.	