

PART 2 – CONFIDENTIAL FACTS AND ADVICE

MD3114

Title: City Hall Landlord Contribution and City Hall Main Relocation Budget Uplift

Information may have to be disclosed in the event of a request under the Freedom of Information Act 2000. In the event of a request for confidential facts and advice, please consult the Information Governance team for advice.

This information is not suitable for publication until the stated date because:

Part 2 includes confidential commercial information regarding costs related to the contract with ISG Fit Out Ltd (ISG), which remains sensitive because some of these costs are not payable until the expiry of the defects period (March 2024) and there is potential for GLA to withhold or deduct sums in respect of any outstanding defects. GLA officers are of the view that it is not appropriate to disclose such information at this time. Confidential information on the terms of the lease between the GLA and GLA Land and Property Limited (GLAP) is also included.

Date at which Part 2 will cease to be sensitive or when this information should be reviewed with a view to publication: 01 March 2024

Legal adviser recommendation on the grounds for not publishing information at this time:

The contents of Part 2 include sensitive information that relates to the GLA's and GLAP's commercial interests, the disclosure of which could prejudice those interests. For this reason, it is considered that the information contained in this report and appendices is exempt from publication in reliance upon the exclusions contained in sections 42(1) (legal professional privilege) and 43 (2) (Commercial Interests) of the Freedom of Information Act 2000; and because the public interest in withholding the information outweighs the public interest in releasing it.

If this information is considered for release pursuant to the provisions of the Environmental Information Regulations 2004, this information should be considered exempt information under regulation 12(5)(e) – where disclosure would adversely affect the confidentiality of commercial or industrial information where such confidentiality is provided by law to protect a legitimate economic interest.

Legal Adviser – I make the above recommendations that this information is not suitable for publication at this time.

Name: Sonali Patel

Date: 24 March 2023

Decision and/or advice:

GLAP contribution

1. The total price for ISG to undertake the works was originally agreed at £12.95m, with a view to achieving practical completion in early Autumn 2021. In accordance with MD2476, GLAP as landlord agreed to invest £3.3m to cover refurbishment costs and repairs required to relet the building under MD2722. In return, the GLA as tenant agreed to take a long-term lease of 25 years (subject to a tenant break in year 20) at a rent of £1.7m per annum.
2. An assessment of ISG's itemised cost estimate for carrying out the alteration works to City Hall was subsequently undertaken. In MD2843, it was determined that the full GLAP budget of £3.3m would be taken up. This was apportioned as set out in Table 1.

Table 1 – MD2843 GLAP contribution apportionment	
Cost category	MD2843 reapportionment
Sustainability works	£1m
Alteration works	£2.15m
Repairs	£0.15m
Total	£3.3m

3. Moreover, following detailed surveys by ISG and progression of works on site, further repairs and maintenance issues were identified. MD2843 approved a further GLAP contribution of £2.09m of additional landlord costs towards: maintenance and repair costs; and a contribution towards time-delay compensation, as well as a contingent sum. This brought the GLAP contribution to £5.39m. £230k of this was to be delivered under a separate contract by GLAP, bringing the total contribution to the project of £5.16m.
4. Works to the building continued following approval of MD2843. This work uncovered the need for further repairs and maintenance to the building to ensure that it could be occupied and the systems could operate correctly, including sustainability systems supporting the building's BREEAM 'Outstanding' rating. Existing estimates of costs included in MD2843 were also firmed up through ongoing discussions with the contractor. Following agreement of the final account with ISG in February 2023, there is now certainty as to the final additional costs to GLAP.
5. Following agreement of the final account between GLA and ISG, the full extent of the additional repairs and delay related costs allocated to the landlord has been agreed, totalling £3.625m. The various repairs and maintenance to the building, such as the raised access floor and the replacement of the building management system, have had a disproportionate impact on programme delay, resulting in a higher apportionment of these costs to GLAP. The apportionment of the delay costs between the GLA and GLAP has been made through assessment undertaken with our project management and cost consultants.
6. Consultant time has also been spent managing these landlord repairs and delay costs. Consultant fees of £0.321m are apportioned to GLAP.
7. These additional costs have been reviewed and agreed by representatives of the GLA and GLAP. A summary of the total costs to GLAP as landlord that have been accrued through the relocation programme are set out in Table 2.

Table 2 – Landlord costs	
Cost category	Cost
Sustainability works contribution	£1m
Alteration works contribution	£2.15m
Repairs and delay costs	£3.625m
Consultant fees	£0.321m
Total	£7.096m

8. Most of these costs would have been incurred by the landlord regardless of who occupied the building. They include some repair costs; consultant fees for managing these works; and the contribution to fit out, to drive an increased rental value.
9. Given that the scope of works under the building contract has increased again, this could exacerbate the potential risk of procurement challenge (referred to in Part 2 of MD2843) from the other framework suppliers, if such works were not within the original scope that was mini-tendered. However, on the understanding that ISG was the only supplier who expressed an interest in the opportunity, and tendered, this risk is mitigated to a large degree.

Main relocation budget uplift

10. Following agreement of the final account with ISG and the apportionment of costs between the GLA and GLAP, the overall financial outturn cost to the GLA, related specifically to the relocation programme, can be determined.
11. The overall financial outturn cost to the GLA is £18.981m, relating to the delivery of City Hall. This is made up of specific costs across budget lines, as set out in Table 3.

Table 3 – Financial outturn to the GLA	
Category	Cost
Main relocation budget	£17.817m
Transformation and other team budgets	£1.164m
Total	£18.981m

12. The £10m dilapidations reserve was set up at the beginning of this project. The dilapidations costs are £4.197m against an approved budget of £4.5m. The remainder of the original £10m dilapidations reserve has been used in part to offset the overspends on the relocation programme and budget.
13. The broadcasting systems renewal costs are £2.737m and are recharged to the FM Capital Renewals Programme. Renewal of the broadcasting systems would have been required if the GLA would have continued to occupy the previous City Hall at More London, and so are not included in the overall costs of the relocation programme.
14. The purpose of the Transformation budget was to support the wider transformation of the GLA, a key element of which was the relocation of City Hall. A proportion of revenue costs associated with this relocation has therefore been allocated to this budget.
15. The increase in costs to the main relocation budget result from a number of variations to the contract with the main relocation contractor and associated delay costs. The largest increase in costs arise from the development and delivery of the security requirements for City Hall, which are required to ensure a suitable level of protection for the Mayor, the Assembly, staff and visitors. These increased costs have used all of the contingency and require an uplift of up to £0.4m. This covers the £0.317m overspend and includes a contingency of £0.083m to cover any unforeseen costs that may yet emerge.

Impact to GLAP business case for accepting the surrender of Siemens' lease

16. When considering the business case of letting to the GLA or to an alternative occupier, the landlord impacts of both scenarios were set out as follows:
 - letting to the GLA: landlord interest is £7.182m over 10 years
 - new tenant: landlord interest is -£5.217m over 10 years.
17. Both scenarios included a contribution of £2.8m towards fit-out of the building as an incentive to drive an increased rentable value.
18. As repair costs would have been incurred whoever had occupied the building, the additional costs

(minus repair costs) on top of the £2.8m contribution incurred by GLAP would be £2.755m. It is considered that these additional costs would not erode the landlord's interest to a level at which letting to an alternative tenant would be a suitable or viable alternative.