

	Executive – 30 September 2015	Agenda Item No. <div style="font-size: 2em; font-weight: bold; text-align: center;">6</div>
Title	Council HQ Relocation Project – Part A	
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Wards of the District directly affected	Leamington Clarendon	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No	
Date and meeting when issue was last considered and relevant minute number	Executive 3 December 2014 Minute number 87	
Background Papers	Executive 3 December 2014 – Council HQ relocation project – update report; Council June 2104; Executive May 2104 – Council HQ Relocation Project – Update Report. Executive Mar 2014 – Relocation of the Council’s HQ offices, Parts A and B and Addendums; Executive Dec 2012 – Proposed Regeneration LLP, Parts A and B; Executive May 2012 – Feasibility Study of Leamington Assets, Parts A and B; Executive Feb 2011 – Feasibility Study of various WDC assets in Leamington; Executive June 2010 – Customer Access in Leamington; Executive April 2010 – Accommodation Review. EC Harris Asset Optimisation feasibility study report and background working papers, 2010/11 Accommodation Review background working papers 2010 One Stop Shop background working papers 2009	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes

Included within the Forward Plan? (If yes include reference number)	Yes
Equality & Sustainability Impact Assessment Undertaken	No
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Officer/Councillor Approval		
Officer Approval	Date	Name
Deputy Chief Executive	n/a	Joint author
Head of Service		n/a
CMT	17/09/15	Chris Elliott, Andrew Jones, Bill Hunt
Section 151 Officer	17/09/15	Mike Snow
Monitoring Officer	17/09/15	Andrew Jones
Finance	17/09/15	Mike Snow
Portfolio Holder(s)	17/09/15	Cllr. Mobbs, Cllr. Cross, Cllr. Whiting
Consultation & Community Engagement		
N/A		
Final Decision?		No
Suggested next steps (if not final decision please set out below)		
Report back to Executive in January 2016		

1. SUMMARY

- 1.1 On 3 December 2014 Executive approved a short-list of potential site options for its HQ offices and instructed officers to work with the Warwick Limited Liability Partnership (LLP) to carry out further analysis. The purpose of this report is to set out the outcomes of that work and the justification for recommending that the Council commits to a detailed feasibility study of the preferred option: a comprehensive development of the current site of the Council's Covent Garden car parks (surface and multi-storey) which would include the Council's new HQ offices and new car parking in lieu of the existing provision.
- 1.2 There is a separate Part B report on the agenda containing further information that is commercially confidential, although all the recommendations are within this Part A report. The two reports should be read in conjunction to enable members to form a balanced view of the recommendations below.

2. RECOMMENDATIONS

- 2.1 That Executive notes the outcome of the site option feasibility work as set out at **Appendix One**.
- 2.2 That Executive selects the Covent Garden site as the preferred location of its new HQ offices and agrees that no further work will be undertaken on any other site options at this stage.
- 2.3 That Executive agrees that the LLP is instructed to undertake a full feasibility and viability assessment of a comprehensive redevelopment of the Covent Garden site, to include new HQ offices and new car parking in lieu of the current provision.
- 2.4 That Executive agrees that officers will work with the LLP to develop a funding strategy for the relocation project, based on the principle of the development scheme being broadly capital cost neutral.
- 2.5 That Executive agrees that the LLP is instructed to investigate the potential for disposal/alternative use of other WDC owned assets to generate value added capital receipts to support the funding strategy.
- 2.6 That Executive notes that a further report will be presented to the January 2016 meeting allowing a decision to be made on whether the project should progress to the delivery phase.

3. REASONS FOR THE RECOMMENDATIONS

- 3.1 The Executive meeting of 3 December 2014 approved a shortlist of potential sites for new or refurbished Council HQ offices for further assessment:
- Court Street
 - Spa Centre site
 - Riverside House (refurbishment)
 - Covent Garden
- 3.2 Officers have also been continuing discussions with our previously selected developer partner, Wilson Bowden, in respect of the option to bring forward retail-led development on the site of the Chandos Street car park site. These discussions have considered the potential for an office component to any future

scheme. Consequently, and for completeness, this fifth potential site option has also been assessed.

- 3.3 Details of the outcomes of the assessment of these five options are set out at **Appendix One**, with further commercially sensitive cost analysis information appearing in the confidential Part B report. The outcomes can be summarised as:

Site option	Conclusion
Court Street site	Discount this site as not being suitable for the new HQ offices but bring forward separate housing-led regeneration proposals (Note: a separate fast-track residential development scheme option is being developed by the LLP and will be reported to a future Executive).
Spa Centre site	Discount this site as not being suitable for the new HQ offices. Review any future development options for the site in the context of any wider review of the Spa Centre
Riverside House	Discount both the new-build and refurbishment options as not being cost effective. Site to be sold/developed by the LLP to generate the maximum possible value added capital receipt to part fund the new HQ offices project.
Chandos Street	Discount the option of development as part of a wider retail-led scheme as being neither cost effective, nor deliverable within our required timescale, nor potentially compliant in procurement law terms with the existing scheme contracted to Wilson Bowden. (see section 9 – Part B report for further details) Discount the option of a stand-alone development on the site as not maximising the strategic and commercial potential of this prime town centre site.
Covent Garden	Discount the option of stand-alone development on the surface car park as it does not address the strategic and financial considerations in respect of the adjacent multi-storey car park. Approve the whole site (surface and multi-storey car parks) as the Council's preferred site option and investigate a comprehensive development to provide the optimum strategic solution.

- 3.4 The Council has been considering site options since December 2012 and has had differing 'preferred options' at different points in the intervening period. An exhaustive search for potential sites led to the production of the 'longlist' considered in December 2014 and a further iterative assessment has now concluded that of the 'shortlist' options it is Covent Garden should be investigated in detail. It is, therefore, recommended that the Council makes a final decision on a preferred site option and discontinues any further assessment work on alternatives, freeing up the resources that have been devoted to the task. Alternative site options would, therefore, only be considered in the future if the detailed feasibility and viability appraisals that will now be undertaken conclude that the Covent Garden option should be discounted rather than the project moving from its current feasibility phase to a future delivery phase.

- 3.5 Members will be aware that the LLP was created in 2012 as a vehicle to specifically advance and unlock complex development projects such as this one and to identify innovative ways to create added value to ensure their delivery. Integral to its establishment was the core principle that any project that is to be delivered through the LLP vehicle has to demonstrate, through independent validation, that it is better than any other potential delivery options open to the Council. The LLP has undertaken, and funded, all the site option feasibility work undertaken to date at its own risk. As risk funder it now requires clarity on our preferred site before it invests further time and energy in taking forward the next stages of the project feasibility and evaluation processes.
- 3.6 Subject to approval of recommendation 2.2 the LLP will now undertake detailed feasibility and viability assessments of the Covent Garden site, currently occupied by a surface car park and a multi-storey car park (MSCP). Officers have full confidence that the LLP's credentials to undertake this work have been previously proven. This view has been further endorsed by the Executive's decisions in November 2014 and September 2015 that they be authorised to look at the Council's non-operational property assets and assess how these could potentially be used to drive and capture added value to support future revenue expenditure and service provision.
- 3.7 The LLP has already undertaken site feasibility appraisal work for previous preferred options, including a range of financial feasibility and development modelling work, and some of these detailed assessments can be used, with appropriate updating, to ensure the proposed assessments for the Covent Garden site are completed as quickly as possible. Ensuring that this process is undertaken speedily is important given that the previously agreed £300,000 per annum revenue savings attributable to this project have already been included within the Medium Term Financial Strategy (MTFS) as being deliverable from April 2018 onwards.
- 3.8 The viability appraisals will include the development of a funding strategy for the project, critical to achievement of the principle, integral to all previous decisions made on this project, that it should be broadly capital cost neutral. Delivery of this principle is increasingly important to the overall finances of the Council given the potential future calls on capital expenditure and/or borrowing and consequent revenue saving pressures that are explored in more detail in Section 5.
- 3.9 However, it is clear that the sale of the Riverside House site will not generate sufficient capital to cover the costs of construction of a new HQ office building and the re-provision of sufficient new car parking on the Covent Garden site to ensure that the overall car parking capacity needs of the town centre are met, now and in the future. Further information is provided within the Part B report.
- 3.10 Consequently, the Council either has to abandon the principle of the project being broadly capital cost neutral and accept that borrowing would be required, (the costs of which would eat into the planned £300,000 per annum revenue savings that the new HQ would generate) or it has to develop a wider funding strategy to close the gap between the Riverside House site receipt and the cost of the project. Officers will continue to work closely with the LLP on this issue and the outcomes of this work will be reported back as part of the overall feasibility and viability studies.
- 3.11 The emerging funding strategy has a number of components:

Potential funding contribution	
1)	The 'value added' capital receipt from disposing of the Riverside House site, with this sum maximised by the LLP.
2)	The additional commercial value that the LLP is able to drive out of a comprehensive development scheme for the Covent Garden site, on a site which is larger than needed to solely accommodate the Council's office and car parking needs.
3)	The value derived from any new innovative financing or leaseback initiatives that the LLP may be able to offer.
4)	Re-investment of any 'value added' capital receipt arising from the LLP's emerging Court Street site residential development proposals.
5)	Re-investment of any revenue savings or capital receipt that might flow from the potential future disposal of the Town Hall (as approved in principle by the 3 September Executive 'Fit for the Future' report).
6)	Re-investment of any new revenue or capital receipts arising from the alternative use or disposal of any other WDC assets, whether achieved through the use of the LLP or in-house resources

- 3.12 Recommendation 2.5 seeks approval for the LLP to be instructed to consider the potential disposal or alternative use of other WDC assets within this overall funding strategy (point 6 in the table above). No firm decisions will need to be made on any proposals for such alternative uses or disposals at this stage, as it will not be known until the next stage feasibility and viability options are completed what the size of any potential funding gap would be and therefore whether or not this option needs to be exercised. Consequently, the January 2016 report will address whether the funding gap can be addressed through points 1-4 above or whether consideration of points 5 and 6 is also required.
- 3.13 At this stage it is envisaged that the LLP consideration of other assets will only extend to other WDC owned car parks in Leamington town centre. Such an examination would explore the potential contribution their alternative use could contribute to this project and/or the overall financial position of the Council. This work would be informed by a separate examination of the car parking capacity needs of the town centre. This work will not impact on the decision making as to whether or not they could be decommissioned as car parks but also inform the decision as to what level of car parking re-provision is required on a redeveloped Covent Garden site.
- 3.14 Subject to approval of the recommendations in this report the next stage will be the completion of detailed feasibility and viability appraisals. This work will comprise of:
- An evaluation of a comprehensive development scheme on the Covent Garden site that includes:
 - The Council's new HQ offices; including a new Council Chamber and CCTV control room, relocated from the Town Hall.
 - Sufficient car parking re-provision in lieu of the current surface car park and MSCP.
 - Further appropriate commercial and/or residential elements to 'add value' to the project.
 - A review of the anticipated revenue savings.
 - Scheme deliverability and risk assessments.

- An updated programme timetable

- 3.15 As with all LLP projects there will need to be a formal 'sign-off' of a viable scheme from both Executive and the LLP Members' Board, on which WDC has 50% representation. There will, therefore, also be a need to prepare:
- A provisional Heads of Terms agreement (between the Council and the LLP) for a scheme and its delivery.
 - The formal independent evaluation of the project, necessary to demonstrate that the LLP's proposition is better than any other option open to the Council.

These elements of the project will require the approval of the LLP's Operations and Member Boards prior to their formal sign-off by Executive. However, the final decision on moving from this current evaluation stage to a delivery project will be made by the January 2016 Executive.

- 3.16 The current outline timetable for the project is set out below. This is designed to enable the Council to take up occupation of the new HQ offices by March 2018, assuring delivery of the planned revenue savings on the timetable already built into the Medium Term Financial Strategy.

Date	Activity
30 September 2015	<ul style="list-style-type: none"> • Executive approves the recommendations and selects Covent Garden as its preferred site.
October – December 2015	<ul style="list-style-type: none"> • LLP undertakes further feasibility work and the external Validation processes. • Draft Heads of Terms for proposal agreed between WDC and the LLP.
13 January 2016	<ul style="list-style-type: none"> • Report back to Executive. • If a viable project is approved LLP will then allocate forward funding of c£600,000 for the next stage of the project.
January – July 2016	<ul style="list-style-type: none"> • LLP undertake detailed design assessments; obtains planning consent; secures draft conditional construction contracts
July 2016	<ul style="list-style-type: none"> • Executive approves final detailed project package and commits to proceed with project.
August 2016	<ul style="list-style-type: none"> • Completion of legal agreements.
September 2016	<ul style="list-style-type: none"> • Works commence
March 2018	<ul style="list-style-type: none"> • New HQ opens.

- 3.17 This is clearly an ambitious timetable. Its deliverability will be carefully reviewed as part of the proposed feasibility and viability appraisals and the conclusions reported back in the January report. If, for any reason, it is felt that this timetable might not be deliverable any ensuing consequences for the Medium Term Financial Strategy will be considered within that report.

4. POLICY FRAMEWORK

- 4.1 The Council's Fit for the Future programme is designed to ensure that the Council meets the challenges of decreasing finances, increasing expectations and changing demands. The recommendations in this report are fully consistent with the Fit for the Future programme's principles. A more efficient new HQ building will enable service delivery to be reconfigured to the benefit of customers, facilitate behavioural change amongst the Council's workforce to the same end and deliver substantial revenue savings.

- 4.2 The principle of using assets efficiently and seeking regeneration opportunities is also consistent with the Council's Vision and the Sustainable Community Strategy's general focus of furthering economic, social and environmental well-being for the district, with a specific focus on the town centres of Leamington, Warwick and Kenilworth to underpin and develop economic activity.

5. BUDGETARY FRAMEWORK

- 5.1 Further details of the potential project costs are contained within the Part B report but the headline figures based on current estimates are:

	New-build HQ
Gross costs	£8.26m
Potential net receipts from Riverside House sale	£4.42m
Potential funding gap	£3.84m
	Like for like replacement MSCP
Gross costs	£8.0m
	HQ and new MSCP
Potential total funding gap	£11.84m

- 5.2 However, both officers and the LLP are confident that the current funding gap can be significantly closed by the consideration of the funding strategy set out in paragraph 3.11. This will be finalised during the next stage of the project and will form part of the report to the January 2016 Executive meeting, as the next stage of viability and feasibility assessments will be crucial to determining whether or not this project should progress to its delivery phase.
- 5.3 In addition to the detailed examination of the potential options to close any capital cost funding gap officers will also be confirming the cost of the future repair liabilities of the existing MSCP (which are due to be reported to the November Executive meeting). Given that these liabilities would be extinguished if a comprehensive development of the Covent Garden site is approved the possibility of capitalising the costs to support the project will also be investigated.
- 5.4 Obviously, any development proposals that involve decommissioning car parking provision could have an adverse impact on the Council's revenue income unless those displaced move to other Council owned car parks until the new parking re-provision is available. The viability appraisals of the project will also include the necessary evaluation of this potential impact.
- 5.5 As discussed in section 3, consideration will be given to a funding strategy to address any funding shortfall and determine how it may be reduced, or ideally removed altogether. If there is still a funding shortfall, members will need to consider how this may be met before the Council determines whether or not to go ahead with the project in January 2016, when the detailed feasibility and viability appraisals are complete.

- 5.6 Options to address any remaining shortfall could entail borrowing or using reserves (assuming suitable levels remain). In either case, this would need to be factored into the business case for the project and consideration given as to how any such requirement would impact on the Council's overall finances. Consideration will also need to be given to the potential impact on the other projects and aspirations of the Council.
- 5.7 The Council must ensure that it always has sufficient resources to manage its risks. By taking on additional projects, it is also taking on further risks. It is quite possible that the Council will not have sufficient capacity, resources, or risk appetite to be able to accommodate all the projects that are currently being worked upon and may require significant finance.
- 5.8 The current operating costs (including business rates) of Riverside House are c£589k per annum. Whilst the new HQ office building has yet to be designed and specified, making it difficult to precisely ascertain its future operating costs, it is possible to make robust estimates of these likely costs using industry standard rates for new buildings of this type and actual running costs of new buildings being operated by other local authorities. Our current estimates are that the annual gross operating costs (including business rates) will be c£281k per annum, providing for an annual revenue saving of £308k per annum. Further details are set out in the Part B report.
- 5.9 Whilst there is a high degree of confidence that the required annual savings target of £300k can be achieved it should be noted that part of this overall saving comes from a reduction in the Council's business rate liabilities. The Council receives an income from retained business rates so, perversely, any saving from this source could potentially have an adverse impact on its overall finances. Under current rules 20% of the business rate reduction, c£30k, would have to be accounted for as a potential loss of income. However, the treatment of business rates is complex and the impact would need to be considered in the context of all other business rates (positive or adverse) impacting on the Council at the time that the project is completed. This will be considered further through future budget reports and reviews of the MTFS.
- 5.10 There is also the issue of when the future revenue savings, now built into the Medium Term Financial Statement (MTFS) from 2018/19 onwards, are capable of being realised and whether a comprehensive development scheme of the whole Covent Garden site compromises the timetable set out in paragraph 3.16. There are no current indications that the revenue savings would be delayed but this will be examined in detail during the next stages of the project and reviewed as part of the January 2016 report.
- 5.11 The Council has 50% share in the LLP, with our partner Public Sector PLC (PSP) holding the other 50%. The LLP will put in the upfront funding for the feasibility work referred to in paragraph 3.14. At this stage, the costs of the proposed should not be significant. However, if the scheme continues to Stage 2 (see paragraph 8.1), the LLP will be putting £600k of forward funding into the project. Assuming the project then continues to Stage 3, these costs will be part of the overall project costs to be recovered. However, if the project does not progress from Stage 2 to 3, the Council will be liable for 50% of these costs, plus interest thereon. It may be possible to recover any such 'abort costs' from another future LLP project (on the assumption that a suitably profitable scheme comes forward) but if not the Council would need to make good any shortfall from reserves or an allocation of revenue funding.

6. RISKS

- 6.1 The risks around the proposed approach are negligible at this stage in the project. The recommended next-stage work would be undertaken by the LLP at its cost and risk. Any proposals arising from the work would be subject to a further report to, and approval by, Executive. At this stage members are not being requested to make a firm commitment to the project but instead being asked to approve the detailed feasibility and viability appraisals necessary to inform that decision.
- 6.2 The Budget Review Report presented to the July Executive showed the level and profile of savings required by 2020/21. The savings profile continues to include £300k savings from the proposed office move, deliverable from 2018/19 onwards. If the office move is delayed, this will impact upon the timing of the savings to be delivered. If the move is not agreed, this will increase the savings to be delivered further.
- 6.3 An updated project Risk Register is set out at **Appendix Two**. This would be updated appropriately as the project develops, with any significant risks reflected in the corporate Significant Business Risk Register.

7. ALTERNATIVE OPTIONS CONSIDERED

- 7.1 Executive could choose not to progress the recommended approach and select an alternative site. This option has been discounted as the summary of the site appraisal work, set out in **Appendix One**, shows that the Covent Garden site is the best option available to the Council. Selection of a sub-optimal site would require further work, worsen the potential viability of the scheme and compromise the Council's ability to deliver the required revenue savings on schedule.
- 7.2 Executive could decide not to progress the project and remain in occupation of Riverside House. This option has been discounted as this would add c£1.5m to the currently unfunded assets maintenance liability and could compromise the delivery of the required revenue savings.
- 7.3 Executive could decide to undertake the next-stage feasibility work in-house rather than through the LLP. This option has been discounted as it would place all the risk onto the Council, have a significant cost and resourcing impact and would be likely to delay the completion of the next stage, compromising the ability to deliver the required savings on schedule. The LLP was established for exactly this purpose and has the necessary expertise and resource to undertake the required work on the timescale envisaged. Not utilising the LLP would also fundamentally undermine the proposed funding strategy as it would effectively rule out the ability to capture 'value added' capital receipts from other assets.

8. BACKGROUND

- 8.1 The relocation project has been designed to be undertaken in 3 distinct stages:

Stage 1 – Proposal development and approval

- Project proposals finalised
- Formal evaluation undertaken by the LLP Operations Board
- Formal sign off by the LLP Members Board
- Agreement of Head of Terms and any other appropriate legal agreements between the LLP and Council
- Formal approval of project by the Council

Stage 2 - Design and Assessment

- The LLP would forward fund, and put in place, a Project Budget of c.£600k (to be clarified and confirmed) to fund the following detailed work:
- The preparation of detailed designs for the two sites
- Planning permissions sought and secured for each site (one for the Riverside House site's disposal, and the other for the new HQ's development).
- Tenders sought for the construction of the new office building, and a suitable Design and Build contract provisionally let subject to satisfactory completion of the viability test
- Development partner procured by the LLP (subject to agreement of the Council) for the development of the Riverside House site.
- Full and final scheme viability test undertaken
- Sign-off of the viability test by both the LLP and Council.

Stage 3 - Construction

- Phase 1 of the residential development commences on the eastern part of the Riverside House site (visitors car park).
- New Covent Garden development (HQ + MSCP etc.) construction commences
- Phase 2 of the residential development of the Riverside House site commences once the Council occupies the new offices and vacates the site.

- 8.2 This approach provides for a 'gateway' at the end of Stages 1 and 2, progression through which requires the formal approval of both the LLP Members Board (on which the Council has 50% representation) and Executive. The Stage 1 gateway 'sign-off' would be considered by Executive in January next year. Stage 2 would then commence, and a further report would be brought back to Executive once the full scheme design assessments had been completed and planning approval obtained for the Covent Garden site (and any other linked sites, as determined by the funding strategy). It is currently envisaged that Stage 2 would be completed to allow a report back to the July 2016 Executive. However, as described in paragraph 3.17, the timetable is ambitious and its deliverability will be reviewed as part of the January 2016 report.
- 8.3 Whatever the final date for completion of Stage 2, progression through the next 'gateway', to Stage 3 (construction) would not just be a formality. Members would be making an informed decision based on further detailed technical and financial appraisals, a principle enshrined within each of the 3 stages of the project.