

 Executive – 8th May 2014		Agenda Item No. 4
Title	Council HQ Relocation Project – Update Report	
For further information about this report please contact	Bill Hunt Deputy Chief Executive bill.hunt@warwickdc.gov.uk 01926 456014 Duncan Elliott Senior Project Coordinator duncan.elliott@warwickdc.gov.uk 01926 456072	
Wards of the District directly affected	Leamington Clarendon, Leamington Milverton, Leamington Brunswick	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?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 26 th March 2014 Minute numbers 176 & 178	
Background Papers	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?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality & Sustainability Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Deputy Chief Executive		Joint author
Head of Service		n/a
CMT	22/4/14	Chris Elliott, Andrew Jones, Bill Hunt
Section 151 Officer	22/4/14	Mike Snow
Monitoring Officer	22/4/14	Andrew Jones
Finance	22/4/14	Mike Snow
Portfolio Holder(s)	22/4/14	Cllr. Mobbs, Cllr. Hammon
Consultation & Community Engagement		
N/A		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1. SUMMARY

- 1.1 On 26 March 2014 the Executive agreed the proposals for a Council HQ offices relocation project. The site of the new HQ offices will be on the open land adjacent to the Spa Centre, with the project also delivering new housing on the current Riverside House site and on land in the vicinity of the Council owned Court Street car park.
- 1.2 The relocation project, comprising of the development of the 3 linked sites, will be delivered through the Limited Liability Partnership (LLP) established by the Council with its private sector partner Public Sector Plc (PSP). The LLP's innovative development package will:
 - deliver the proposed relocation of the Council's HQ offices;
 - deliver a One Stop Shop (OSS) for Leamington within the new HQ building;
 - deliver the revenue savings assumed within the Medium Term Financial Strategy;
 - assist the Council to deliver its regeneration aspirations for Old Town;
 - deliver brownfield housing development to assist in the overall delivery of the future Local Plan;
 - bring forward new affordable housing within Leamington;
 - assist the Council to make better use of other assets; the Town Hall and Spa Centre
- 1.3 The LLP will release funding of £673,940 to forward fund the engagement of an external design team to undertake detailed feasibility studies on the three elements of the project. The Executive will receive a further report, in February 2015, once detailed technical and financial appraisals have been completed and planning approvals secured for all 3 sites before any final commitment to the completion of the project is made.
- 1.4 However, in parallel with the commencement of the LLP funded detailed financial and design appraisals of the Spa Centre site, Executive also instructed officers to: *'formally review the potential use of other WDC town centre landholdings as alternative relocation sites and to report back no later than May 2014'*.
- 1.5 This report sets out the outcomes of that review.

2. RECOMMENDATIONS

- 2.1 That Executive notes the review findings as set out at **Appendix One**.
- 2.2 That Executive confirms that the Spa Centre site will be the location of the Council's new HQ offices, subject to successful progression of the project from Stage 2 to Stage 3 following the completion of the scheme viability tests and their formal 'sign-off' by both the LLP and the Council.
- 2.3 That Executive agrees that potential future options for the sites listed in Appendix One will be considered through the development of a Leamington Town Centre Area Action Plan.

3. REASONS FOR THE RECOMMENDATIONS

- 3.1 The Council owns a number of key sites within Leamington Town Centre. Every site has a theoretical potential for redevelopment and/or alternative use, there will equally be a number of considerations and constraints that limits that

potential. Officers have therefore undertaken a realistic assessment of the potential of each site to be developed as the location of the Council's new HQ offices, as instructed by the march Executive.

- 3.2 The findings of this review are set out at **Appendix One**. Whilst, a number of sites have the potential to accommodate a HQ office building of the size proposed the review confirms that the Spa Centre site is the most favourable option. Executive are therefore recommended to reaffirm their previous decision to confirm this site as the location of the new HQ offices, subject to the completion of the process set out below.
- 3.3 The relocation project has been designed to be undertaken in 3 distinct stages:

Stage 1 – Proposal development and approval (completed)

- 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

- Preparation of detailed designs for the three sites
- Planning permissions sought and secured for each site
- Tenders sought for the construction of the new office building, and a suitable Design and Build contract 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.
- Registered Provider partner procured by the LLP (subject to the agreement of the Council) for the development of the Old Town 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).
- Residential development commences at the Old Town site
- Office 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.

- 3.4 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 was successfully negotiated following the approval of the project proposals by Executive on 26th March 2014 and Stage 2 is now underway. However, as members will recall, progression to Stage 3 is not a formality and detailed technical and financial appraisals are required on each of the 3 elements of the project. A further report will be brought back to Executive once the full scheme viability assessments have been completed and planning approvals obtained for each of the three linked development sites. It is currently envisaged that these assessments will have been completed by February 2015.

- 3.5 The Submission Draft Local Plan, considered by Full Council and Executive on 23rd April 2014, contains a policy commitment, TC10, to the development of a Royal Leamington Spa Area Action Plan (AAP) during the Plan period, to help ensure the continued vitality and viability of the town centre. This policy commits the Council to engagement with key stakeholders and the community to ensure that future development, regeneration and management of the town centre is delivered in a cohesive manner.
- 3.6 The AAP will look to identify areas for future town centre investment and opportunities for the introduction of new or alternative, appropriate, land uses. It is clear that the Council's landholdings will have an important role to play in the development of the AAP, as they offer the potential for alternative uses to be considered. In the past Council assets have been used to assist in the development of the Royal Priors and Regent Court shopping areas and are currently being considered for a similar role in the future development of the Chandos Street area. Potential options as to the future use of the other assets and landholdings listed in Appendix One will form part of the process for developing the AAP.
- 3.7 The key themes of the AAP will be:
- A 'masterplan' Vision for the town centre
 - Examination and identification of the potential for future strategic allocations
 - A review of potential regeneration and development opportunity sites (particularly in the Old Town/Wise Street/Spencer Yard areas)
 - Examination of the potential to improve the environment and the public realm throughout the town centre
 - A review of car parking requirements and options for delivery
 - A review of vehicular and pedestrian movement into and around the town centre

4. **POLICY FRAMEWORK**

- 4.1 The HQ relocation project is entirely consistent with, and will form a key component of the Council's transformational Fit for the Future programme. The project will deliver benefits to each element of the programme; service, people and money.
- 4.2 The proposed Leamington town centre AAP forms is a policy proposal within the Submission Draft Local Plan.

5. **BUDGETARY FRAMEWORK**

- 5.1 There are no particular budgetary implications arising from this report. The relocation project's budget was examined in detail in the Part A and Part B reports presented to the March Executive. The proposed Leamington town centre AAP will be developed within existing budget provision.

6. **RISKS**

- 6.1 The risks associated with the relocation project were examined in detail in the Part A and Part B reports presented to the March Executive. A project Risk Register has been developed and will be updated appropriately as the project develops, with any significant risks being reflected in the corporate Significant Business Risk Register.

- 6.2 The specific risks arising from this report are considered in more detail in Section 7 below.

7. ALTERNATIVE OPTIONS CONSIDERED

- 7.1 Executive could determine that one of the sites listed in Appendix One should be developed as the location of the Council's new HQ offices rather than the Spa Centre site.
- 7.2 This option has been discounted for two main reasons. Firstly, the review undertaken has identified that the Spa Centre site has the least 'opportunity cost' and/or development constraints of all the Council's town centre landholdings and is, therefore, the best option for the site of the relocated HQ offices, as set out in Appendix One.
- 7.3 Secondly, a significant amount of work has already been undertaken by the LLP, supported by officers, on the Spa Centre site. Whilst, the detailed appraisals still need to be undertaken, with report back to Executive, before any decision on progression of the project to Stage 3, all current indications are that the project, as currently configured, will be financially viable and practically deliverable. A decision to discontinue this work in favour of detailed assessment of another site will mean this work will have been abortive and will significantly delay the project with a consequent adverse impact on the Medium Term Financial Strategy (MTFS).
- 7.4 The current operating costs for Riverside House are c£670k per annum. Whilst, the new HQ offices have yet to be designed and specified, making it difficult to precisely ascertain their future operating costs, it is possible to make robust estimates of their future operating costs using industry standard rates for new buildings of this type and actual running costs of new buildings operated by other local authorities who have completed projects of this type. Current estimates are that the annual gross operating costs of our new building will be in the range £330k - £350k per annum.
- 7.5 The MTFS currently anticipates a £300k per annum saving from the relocation of the Council's HQ offices from financial year 2015/16 onwards. The quantum of savings is deliverable but the draft Project Plan approved by the March Executive anticipates (subject to formal approval of the progression of the project through the Stage 2 'gateway' to Stage 3 following completion and examination of the detailed scheme viability assessments) completion of the HQ relocation in late 2016 meaning that the full year savings would not be realised until 2016/17.
- 7.6 Current financial projections continue to indicate that the Council will have a budget deficit from 2016/17 onwards, with peak deficits (in excess of £1m per annum) falling in financial years 2017/18 and 2018/19, unless on-going savings are achieved or increased income realised. Therefore, whilst a short delay in the achievement of the anticipated savings from the HQ office relocation project is not likely to be too problematic of itself, with, for example, potential currently existing for the consequences of a 12 month delay to be met from savings, a longer delay becomes increasingly problematic in financial terms.
- 7.7 A decision at this stage to select an alternative relocation site will inevitably disrupt the current project timetable and is likely to lead to a minimum 12 month delay, assuming that the proposed alternative site is found to be viable, placing significant pressure on the MTFS.

- 7.8 However, were an alternative site to be considered desirable the potential incorporation of the HQ office relocation within the planned retail-led development scheme on the site of the existing Chandos Street surface car park is likely to be the next 'best' option for further exploration. This development has been a policy objective for the Council for a number of years and is reflected with the policy framework set out in the Submission Draft Local Plan.
- 7.9 As set out in Appendix One this option as has a number of potential advantages but has 2 potentially significant drawbacks. One of these relates to the future freehold ownership of the new HQ offices. The Spa Centre option assumes the retention of the freehold of the site by the Council (as is currently the case with the Riverside House HQ offices). Although no detailed feasibility work has been undertaken on the alternative option it appears likely that, were the new offices to form part of a larger, predominantly, retail led development scheme, it is unlikely to be financially advantageous to either the Council or its development partner for the Council to retain the freehold of the offices.
- 7.10 The second issue relates to when the revenue savings arising from the office relocation, already built into the MTFS from 2015/16 onwards, are capable of being realised. As explained in paragraph 7.5 above, if the Spa Centre site was to be developed, full year revenue savings are likely to be realised from 2016/17. However, the need to tie the relocation into a larger development scheme at the Chandos Street site would delay the build and subsequent occupation until late 2018 at the earliest, with the consequence that full year savings would not be realised until 2019/20.
- 7.11 Whilst the basis of this report was the solely to consider the potential use of alternative Leamington town centre landholdings within the Council's ownership, as set out in 1.4, Executive could also decide to consider other sites not within Council ownership. Such an option could involve the acquisition (freehold or leasehold) of third-party land for a new build scheme or the acquisition (freehold) or occupation (leasehold) of an existing building and, for either scenario, involve either a town centre or an out of town location.
- 7.12 This option has also been discounted for a number of reasons. Firstly, the Council agreed in December 2012 that it wished to identify a town centre site within Leamington for a relocated HQ office development. This decision was primarily based on the desire to utilise the move to stimulate regeneration (which the Spa Centre proposal does given the fundamental linkage of the 3 development sites, including the Court Street site).
- 7.13 However, other considerations cited at the time were the political and reputational impacts of the Council being seen to 'abandon' the town at a time when one of its strategic aims is to protect the vitality of the town centre, the potential impact on the vitality of the town centre as a result of jobs being relocated elsewhere and the cost to the Council of operating from split sites on the assumption that a Leamington OSS would need to be created at a town centre location. All of these considerations still apply today.
- 7.14 Another factor is the cost of acquiring another site, whether on a freehold or leasehold basis, which would adversely impact on the financial viability of the proposed relocation. Unless the Council utilises land that is already within its ownership it would need to incur capital expenditure to acquire land or property or revenue expenditure to lease land or property. The former would either require a significant depletion of reserves or the additional revenue expenditure

required to service prudential borrowing and the latter would adversely impact on the MTFS by reducing or eliminating the revenue savings that the project is designed to deliver.

- 7.15 The final consideration relates to the future control and use of the office HQ as a Council asset. The Spa Centre proposal would create a new asset, with a significant value, from a low value (in financial terms) area of amenity land. The Council would then have the option to use this asset flexibly in the future, an issue that potentially has particular significance in the light of the current renewed interest in promoting debate on the creation of a unitary council that is being promoted elsewhere in the county. Any leasehold option would obviously remove this as an option.