

	<b>Finance and Audit Scrutiny Committee</b> <b>17 December 2019</b>	<b>Agenda Item No. 6</b>
<b>Title</b>	Financial implications of the delayed HQ relocation	
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<b>Wards of the District directly affected</b>	Leamington Clarendon	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>		
<b>Background Papers</b>		

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	No
<b>Included within the Forward Plan? (If yes include reference number)</b>	No
<b>Equality Impact Assessment Undertaken</b>	n/a

<b>Officer/Councillor Approval</b>		
<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>
Deputy Chief Executive		author
Head of Service		n/a
CMT	9/12/19	
Section 151 Officer		author
Monitoring Officer	9/12/19	
Finance		
Portfolio Holder(s)	9/12/19	Cllr. Hales; Cllr. Day
<b>Consultation &amp; Community Engagement</b>		
Insert details of any consultation undertaken or proposed to be undertaken with regard to this report.		
<b>Final Decision?</b>	Yes/No	
<b>Suggested next steps (if not final decision please set out below)</b>		

## 1. **Summary**

- 1.1 The work programme of the Committee includes consideration of separate reports on:
- Financial update on Covent Garden Car Park
  - Update on financial implications of delaying the HQ move
- 1.2 The two issues are fundamentally linked as full Council agreed in April 2016 to relocate the Council's HQ offices, allowing the Riverside House site, allocated for housing development in the Local Plan, to be vacated to enable that development to come forward and approve a comprehensive redevelopment of the Covent Garden site comprising of:
- a new multi-storey car park providing more spaces than contained in the existing multi-storey and surface car parks combined;
  - an office block providing new HQ offices to allow the Council to vacate both Riverside House and the Town Hall;
  - 'enabling development' of housing apartments.
- 1.3 Council also agreed that the development of both sites would be delivered through the PSP Warwick Limited Liability Partnership (LLP) that the Council had established with a private company, Public Sector PLC in 2013.
- 1.4 The Council subsequently signed a Project Agreement with the LLP in July 2016. Under this agreement the Council would fund the construction of the new car park (with costs recovered from future income) and the LLP would fund the development of the new offices and enabling housing development. The LLP would be granted an option on the Riverside House site and would dispose of the site to a housing developer once the Council had moved to the new offices. The sale of the Riverside House site for development would cover the costs of the construction of the offices and enabling development, the LLP's Facilitation Return and return a profit to be shared by the partners.
- 1.5 The HQ relocation was scheduled to deliver £300,000 per annum of revenue savings to the General Fund and also facilitate the relocation of Council functions from the Town Hall, saving a further £85,000 per annum.
- 1.6 As members will be aware Executive considered a confidential report on the PSP Warwick LLP on 21 August 2019. Following that meeting the Council issued a press statement on 3 September 2019 confirming the HQ relocation project would not be delivered by the LLP and, as the project was only one that the LLP was responsible for the Council would now be working with its partner, PSP, to discuss the future of the LLP. The statement included the following quote from the Leader: "No decisions have been made on the proposed HQ relocation or the future redevelopment of the Covent Garden area pending the outcome of the review that was announced by the new administration. These issues will be considered by the Council at a future date."
- 1.7 Consequently, the Covent Garden car parks remain operational and will continue to do so until a future decision is made on whether the site is redeveloped in part or full. Equally a final decision will be required on whether to relocate the Council's HQ offices from the Riverside House site and until that time the building will need to remain fully operational.
- 1.8 The two reports have, therefore, been combined to set out the current financial position and, where known, the future financial implications for both sites.

## 2. **Recommendation**

- 2.1 That Committee note the report and the financial information set out in section 3 and determine if any future scrutiny is required.

## 3. **Reasons for the Recommendation**

### 3.1 Covent Garden site

- 3.1.1 The 511 space multi-storey car park is a predominantly concrete structure. The Council routinely inspects its three multi-storey car parks and, additionally commissions periodic specialist structural surveys. Survey work undertaken in 2015 had identified two significant issues at Covent Garden:
- Corrosion of the rebar (internal steel rods within the concrete supporting structure) within the ramp to the upper decks and extensive delamination of the concrete structure on those decks following water ingress as a result of sealing to the upper (open) decks failing.
  - Identification of Alkali Silica Reaction (ASR), which occurs when the alkaline pore fluid in concrete and the siliceous minerals in some aggregates used to form it react to form a calcium alkali silicate gel. This gel expands when it absorbs water to 'blow' open the concrete, allowing further chemical reactions to occur and water ingress to the rebar. ASR cannot be repaired and can only be slowed by preventing moisture ingress into the concrete, clearly problematic in this structure due to the issues with the upper decks.
- 3.1.2 As a result of this survey work the top 2 floors of the car park, decks 7 and 8 were closed in 2015, reducing the operational capacity of the car park to 387 spaces. Significant remedial repairs were also undertaken to:
- Replace/enhance vehicle impact barriers to protect the parapet walls, identified as at risk of being weakened by ASR;
  - Replacement of handrails;
  - Refurbishment of the drainage system to prevent further water ingress to the central ramp 'core'.
  - Additional pedestrian protection along the ramps.
- 3.1.3 A further survey was commissioned in respect of the ASR with the findings reported to Executive in February 2016. This survey concluded that "ASR is present throughout the building but at a lower risk than first considered and can be managed in the short term. There are however, substantial costs associated with maintaining Covent Garden for any length of time". Those costs were identified as c£2.3m, of which £814,000 was required within three years, which might allow the car park to remain operational for up to 20 years, although this life-cycle could not be guaranteed given the unknown factor of how quickly the ASR might activate and lead to the deterioration of the structural integrity of the building. These considerations were explored in more detail in the April and were an important factor in determining the decision to relocate the HQ offices to Covent Garden, with the financial modelling indicating it was more cost effective to replace the car park than repair it.
- 3.1.4 As a result of the decision to defer the relocation project a further specialist structural survey has been commissioned. This has found:
- No evidence of any new areas of ASR since the 2015 survey but micro-cracking as a result of ASR to the parapets on the north/south elevation
  - Significantly increased chloride levels since the 2015 survey which found negligible levels to all decks. The latest survey found over half the test

locations showed medium levels of corrosion and five test locations showed high levels of corrosion (Chloride ion content in concrete is one of the most common initiators of corrosion in the steel reinforcement embedded in concrete). The highest levels of corrosion were identified in the soffits and decks at levels 3, 5 and 7, with lower levels on decks 2 and 6. Of these all except deck 7 are currently operational.

- No evidence that structural reinforcement is fundamentally compromised in any area, but continuing justification for the closure of decks 7 and 8, a need for remedial repairs to inhibit salt accumulation and water ingress, and continued monitoring given the on-going deterioration of the structure.

3.1.5 If the car park is to remain open it is estimated that repair work to the value of c£1.3m (2019 prices) would be required in the next 2-5 years. This expenditure would need to be incurred every 10 years to maintain the effectiveness of the works. However, although the current survey indicates that this level of expenditure should allow the car park to remain operational for c10 years, the works do not resolve the existing ASR and chloride corrosion and any further deterioration could lessen the remaining lifespan of the structure.

3.1.6 In addition, there are on-going maintenance costs which are currently averaging at £30,000 per annum.

3.1.7 If the car park were to remain open long term the likely future costs are estimated as:

Term	Total Estimated Cost	R & M based on £30k p.a.	Cumulative Total
Immediate (1yr)	£44,000	£30,000	£74,000
Short (2yr)	£916,000	£30,000	£1,020,000
Medium (5yr)	£380,000	£90,000	£1,490,000
Long (beyond 10 years)	£1,340,000	£300,000	£3,130,000

3.1.8 The immediate expenditure requirements for 2020/21 can be accommodated within the proposed Planned & Preventative maintenance Budget that will be presented to members for approval in February 2020. However, the costs beyond that period are currently unfunded and careful consideration will need to be given as how they can be met in future years, pending future decisions made by Council.

3.1.9 Whilst the Covent Garden car parks remain operational they generate an income for the Council. The current estimate for 2019/20 is £450,000 and a similar sum for 2020/21 has been built into the base budget. These estimates are based on the following income receipts for recent years:

	Short stay	Long stay	Season Tickets	Total
		(Multi storey only)		
	£	£	£	£
2016/17	145,000	330,000	58,000	533,000
2017/18	142,000	300,000	48,000	490,000
2018/19	134,000	288,000	25,000	447,000
2019/20 Q1	57,000	125,000	19,000	201,000

3.1.10 One further complication for the continued operation of the Covent Garden car parks is the age of the current Pay on Foot equipment. This is now obsolete and parts difficult to obtain, causing inconvenience for customers, loss of ticket income due to delays in repairs being able to be completed and additional repair costs. In the short term it is intended to install Pay and Display ticket machines using old machines recycled from other car parks, although these cannot be made operational until the new Parking Orders for 2020 are approved and sealed in January. However, this is a stop-gap solution and were the car park to remain operational in the medium to long term a new ticketing system would be required. This has not been costed and is not included in the sums referred to in paragraph 3.1.7.

### 3.2 Riverside House

3.2.1 The delays to the project mean that the revenue savings planned of £300,000 per annum to the General Fund will not be made as originally profiled within the Medium Term Financial Strategy. Within the July 2019 Fit For the Future Report, it was reported that the savings were now profiled from April 2022. The slipping of the project has not reduced the overall level of savings to be found by the Council on an on-going basis and requires other savings to be secured sooner.

3.2.2 While active plans for the office move have been in place, expenditure on repairs and maintenance at Riverside House has been kept to a bare minimum for several years with only responsive repairs being undertaken. Despite this it is an expensive building to operate and expenditure on repairs, utilities, maintenance contracts and other operating costs in recent years has been:

Financial Year	£
2016/17	493,250
2017/18	534,700
2018/19	643,270

3.2.3 With the decision to put the relocation project on hold pending a future Council decision it has not been possible to keep repair expenditure at historic low

levels during the current financial year. In addition to any responsive repairs, expenditure estimated at c£70,000 will have been incurred on 'backlog' repairs.

- 3.2.4 Further expenditure on the building will need to be included within the draft Planned and Preventative Maintenance budget for 2020/21. This is currently estimated at £172,000.
- 3.2.5 If the Council decides to stay in the building in the longer term further estimated expenditure of £1,890,000 will be required within the next 5 years.
- 3.2.6 The building also has an extremely high carbon footprint and the above sums are likely to increase significantly were carbon reduction measures to be included in the maintenance programme.
- 3.2.7 Not included in the above figures is the future costs of replacing the ICT cabling within Riverside House. This is currently certified until 2025 but will clearly still work beyond that date. The data centre fabric, such as power, cooling and fire suppression, has been reviewed by the Assets team and expenditure to update the fire suppression and cooling systems is included within the figures above.
- 3.2.8 The servers, storage and backup solution are unaffected by the delay to the development of the new Council offices and their replacement is accounted for in the ICT Asset Reserve.
- 3.2.9 The physical computer network, including items such as switches, routers and firewalls are also largely unaffected by the delay and their replacement is also accounted for in the ICT Asset Reserve. However, unlike the servers and storage which will be moved to the new build when it occurs, the network equipment is, to a degree, bespoke to the building and the services it supports. Greater certainty about a relocation date would allow the network asset replacements to be aligned to the office move.
- 3.2.10 If significant remodelling of Riverside House was to occur in the short to medium term and/or new working practices were introduced, such as hot-desking, then this may lead to additional ICT costs.
- 3.2.11 The printers/copiers currently within Riverside House (and the Town Hall) were leased on 3 and 5 year leases. The shorter leases were to enable the number of machines to be reduced on the office move. With the delay to the office move, it is expected that 4 of the 5 short term leased machines will be required for the full 5 years. Extending the leases on the 4 machines is estimated to cost an £9,993.28 for 2 years. This sum is allowed for within current budgets but would have been a saving as part of the office move.

### 3.3 Town Hall

- 3.3.1 The delays to the project mean that the revenue savings planned of £85,000 per annum will also not be made as originally profiled within the Medium Term Financial Strategy. Within the July 2019 Fit For the Future Report, it was reported that the savings were now profiled from July 2022.
- 3.3.2 The Town hall building is within the proposed remit of the Creative Quarter but at its November meeting Executive agreed that the Council would determine the future of the building before inviting its regeneration partner, CDP to develop any proposal for the building.

3.3.3 Officers are currently considering options, in open dialogue with Leamington Town Council, and these will be reported to a future Executive. Any cost implications and/or impact on the current saving assumptions will be included as part of that report.

#### 4. Policy Framework

##### 4.1 Fit for the Future (FFF)

The Council’s FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects. The Covent Garden development is one of the Council’s key projects.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council’s FFF Strategy.

<b>FFF Strands</b>		
<b>People</b>	<b>Services</b>	<b>Money</b>
<b>External</b>		
<b>Health, Homes, Communities</b>	<b>Green, Clean, Safe</b>	<b>Infrastructure, Enterprise, Employment</b>
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	<u>Intended outcomes:</u> Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and ASB	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/ productivity of local economy Increased employment and income levels
<b>Impacts of Proposal</b>		
The current proposals for the redevelopment of the Covent Garden site include the provision of 49 town centre apartments on a brownfield windfall site. The current proposals for the future redevelopment of the Riverside House site would provide for the delivery of up to 170 new homes on a brownfield Local Plan site allocation. The proposed relocation of the HQ to Covent Garden would make the Council’s	The proposed new offices would be built to BREEAM ‘very good’ standard. The new Multi-storey car park would have 80+ electric charging points compared to the current 2 charging points.	The redevelopment of the Covent Garden directly supports the economic sustainability of the town centre, with relatively highly paid workers being located within it and increased footfall driven to the north of the town centre. The redevelopment would provide significant numbers of jobs, including apprentices within the construction sector.

offices more accessible to the community		
<b>Internal</b>		
<b>Effective Staff</b>	<b>Maintain or Improve Services</b>	<b>Firm Financial Footing over the Longer Term</b>
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours	<u>Intended outcomes:</u> Focusing on our customers' needs Continuously improve our processes Increase the digital provision of services	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money
<b>Impacts of Proposal</b>		
The proposed design and fit-out of the new HQ would support different and flexible ways of working, delivering efficiencies for service delivery.	The new office design would significantly increase the pace of the digital agenda in terms of the Council's operations	The HQ relocation and the ancillary relocation from the Town Hall would deliver a minimum £385,000 annual revenue savings for the Medium Term Financial Strategy and remove significant overhanging capital costs that would otherwise be required for Riverside House.

## 5. Budgetary Framework

5.1 Once the precise works needed to be undertaken to the offices and car park in the short term, these will need to be assessed alongside existing budgets. If additional funding is required, this will need to be included within the Budget report in February 2020 and considered alongside other budget demands and funding available.

5.2 The immediate costs discussed above are summarised below:-

		<b>£</b>
Covent Garden Car Park	Immediate year 1 costs	74,000
Riverside House	Backlog Repairs	70,000
Riverside House	2020/21 Planned and Preventative Maintenance	172,000
Printer/copiers	Lease extensions	9,993
<b>Total</b>		<b>325,993</b>

5.3 If the project does not progress this will increase the level of savings (or income) to be found by £385,000 per annum on a recurring basis.

## **6. Risks**

6.1 Necessary works not undertaken are needed in short term to sustain assets and ensure continued service delivery due to lack of funding, delays in carrying out works etc.

6.2 Overall project not progressing and failing to release the savings included in the Medium Term Financial Strategy and the service enhancements planned as part of the project. This will mean new savings (or income) will need to be identified to avoid impact on service delivery.

## **7. Alternative Option(s) considered**

7.1 The report was requested by Committee so no alternative options have been explored.