

PROPOSED NEWCASTLE-UNDER-LYME PUBLIC SECTOR HUB

Briefing report to Leader and Deputy Leader – 27 July 2016

Submitted by: Executive Management Team

Ward(s) affected: Town

Purpose of the Briefing Report

To provide the Leader and Deputy Leader with a briefing on a proposed course of action which EMT intends to take under the urgency provisions set out in Appendix 4 of the Council's constitution in respect of the approved scheme for the provision of a Public Sector Hub.

Advice to Leader and Deputy Leader of proposed EMT actions

- (a) That the effects of the delay in the Ryecroft redevelopment project are noted and that the work on the Public Sector Hub continues.
- (b) That due to the delay in the Ryecroft project, and the Council's overall capital finance position, the changes to the financing arrangements of the Public Sector Hub project are agreed.
- (c) That officers ensure that the financial implications arising from the above recommendations are reflected in the forthcoming Medium Term Financial Strategy.

Reasons

The substantive business case for the proposed Public Sector Hub remains robust and the proposed course of action seeks to facilitate completion of the said scheme in the most economically advantageous manner from the Borough Council's perspective.

1. Background and context

1.1 In November 2013, in-principle approval was given for officers to work with key partners in the preparation of a full business case for the relocation of staff from the Merrial Street Civic Offices (along with offices at the Guildhall and St George's Chambers), in order to facilitate comprehensive retail-led redevelopment of the Ryecroft area and to contribute towards broader regeneration objectives for the town centre.

1.2 Your officers, together with partner colleagues at the County Council and Police had considered how their services could be accommodated more effectively and efficiently in the future. Various options were considered at an outline business case stage which led to a detailed business case being worked up for a new 'Public Sector Hub'.

1.3 In September 2015, at a meeting of the Council, approval was given for officers to proceed with delivery of the Public Sector Hub project on the basis of a full business case which had been prepared in that regard. A separate report in respect of the redevelopment of the Ryecroft site was included on the same Council meeting agenda and it was approved for officers to work with Henry Davidson Developments (HDD), the preferred developer, to facilitate delivery of that scheme. There was a clear understanding that the two schemes were intrinsically linked because the latter scheme required, as part of the overall scheme proposals, redevelopment of the current Civic Offices site.

1.4 Members accepted the conclusions of the detailed business case exercise in respect of the proposed Public Sector Hub and authorised officers to take the following steps in partnership with Staffordshire County Council (SCC) and the Police & Crime Commissioner's Office (PCC):

A. To proceed with the construction of a Public Sector Hub on the ‘preferred site’ of the former St. Giles and St. George’s School, Barracks Road, Newcastle-under-Lyme on the basis set out in this report, which will require the following key actions:

- (a) NBC (freeholder) to grant SCC a long term ground leasehold interest (or any other interest deemed appropriate, in consultation with the relevant Portfolio Holder) on the preferred site.
- (b) SCC to take the lead (developer) role in commissioning the Hub and when completed, NBC and PCC to be granted long term occupational leases of agreed areas of accommodation by SCC on a “not for profit” (cost recovery only) basis (any variation in commissioning approach to be agreed with the relevant Cabinet Portfolio Holder(s)).
- (c) That capital and revenue budgets as stated within the business case are made available for the development of the Hub and to prepare services for the transition into new ways of working.
- (d) To formalise and implement an organisational cultural change programme on the basis described in the report.
- (e) To establish robust project governance arrangements including reporting to relevant Cabinet Portfolio Holders.

B. That in addition to the Civic Offices site, the properties below be declared surplus to requirements once the Public Sector Hub is complete and approval is given to release them at the most appropriate time in consultation with the relevant Portfolio Holder:

- a) Offices at Sidmouth Avenue, Newcastle (former SCC leasehold Registrars accommodation) – freehold disposal.
- b) Offices at St. George’s Chambers, Merrial Street, Newcastle – leasehold disposal on the basis described in this report.

C. Customer Service Centre, Guildhall, High Street, Newcastle – that officers be authorised to take all necessary steps to bring forward viable, detailed proposals for the use of The Guildhall for community and/or voluntary sector purposes, on a full repairing leasehold basis, as summarised in the report.

1.5 As part of the detailed business case, an options appraisal was undertaken using the approach and techniques previously adopted for the County Council’s “Staffordshire Place” project. This process looked at three key factors;

- A. Cost/Affordability
- B. Non-Financial Benefits
- C. Risk

1.6 It was agreed at an early stage of the project that each of the three main partners would determine its own accommodation requirements and be responsible for their respective proportions for the full 60 year life of the building. Members may recall that architects were commissioned to prepare an indicative building design to reflect these requirements in order to confirm a building cost estimate for the purposes of financial and affordability modelling.

1.7 For each of the three options, a combined “whole-life cost” model was developed

which took into account all the property-related costs of ownership, in respect of NBC and SCC as property owners and also Staffordshire Police and NHS (SSOTP) as tenants. This combined model identified the most economically advantageous option from the overall public purse. The whole life cost model included both Capital and Revenue considerations over a notional asset life of 60 years.

1.8 An estimated total combined cost (Net Present Value – a calculation that compares the amount invested today to the present value of future cash) of the three options was calculated over a 60 year period; this identified Option 2 (new full Civic Hub) to be the most financially advantageous, with Option 1 (“do minimum” option of remodelling and refurbishing the current Civic Offices) being the most expensive.

1.9 Whilst NBC’s contribution towards building costs was estimated to be around £4.6m (34% of £13.7m), the overall capital costs for Option 2 (Full Hub) amounted to about £6.1m (once other costs such as ICT, equipment and project delivery costs were taken into account).

1.10 As stated above the whole life cost model exercise identified that Option 2 ‘Full Hub’ would be the most economically advantageous over the 60 years lifetime of the building. The reasons for that were that it would offer greatest financial savings, as well as non-financial benefits when compared to the other options and that the savings and benefits significantly outweighed the potential risks that this option is subject to.

1.11 Each of the options were assessed for affordability by comparing the average annual required budgets against existing (based on year 2014/15) budgets. It was assumed that each authority would be entirely responsible for expenditure incurred on their exclusively occupied areas and contributes proportionally to communal areas within the new Hub. The report indicated that for Option 2 (Full Hub), the Borough Council would be required to contribute about 34% of the overall costs.

2. Issues

2.1. In making the decision to proceed with the project Members were satisfied about the affordability of the Civic Hub in the context of the Ryecroft scheme. Critically important considerations in this regard were:

- The cost of the new Civic Hub and the proportion of this that the Borough Council would need to bear;
- The annual cost savings to the Borough Council consolidating its office accommodation in the new Hub;
- The financial offer from HDD in respect of the overall Ryecroft site and the likely proportion of the receipt that the Borough Council would expect to receive.

2.2 The key question was whether the Borough Council could afford its proportion of these capital costs taking account of revenue-related implications too. A complex financial model was assembled in order that all known and anticipated property-related costs could be fully compared across the three options under consideration. These costs were reviewed against the backdrop of existing budgets in the chosen baseline financial year of 2014/15. A summary of the key information was provided in the report to Council in September 2015. It is important to note that for financial modelling purposes it was assumed that each party would borrow their respective share of the capital funding requirement to build and fit-out any new hub building although it should be noted that the Borough Council’s preference, at that time, was to actually fund its’ interest in the new building through upfront capital contributions. In summary it was intended that the NBC cost proportion in respect of the Hub (£6.1m) would be met partly from the disposal of property (including the Ryecroft site) and other capital resources.

2.3 The financial analysis demonstrated that Option 2 (Full Hub), would offer NBC the largest annual saving as follows:

- The average yearly cost of Option 1 (£1,888k) less the average yearly cost of Option 2 (£1,346k) produces an average cost saving of £541k over a 60 year period.
- Members were advised that this saving would be made up of two parts:
 - £114k - current budget saving (this can be regarded as the worst-case scenario from a revenue efficiency perspective);
 - £427k - budget requirement that would be required in the MTFs (Medium Term Financial Strategy) under Option 1.

2.4 Analysis of Option 1, 'Do Minimum' (refurbishment of the existing Civic Offices), indicated that there was (and still is) a growing maintenance backlog that had been commuted over 60 years (whole life). If the backlog was to be addressed and the building brought up to standard, then expenditure would be required of £26m over the 60 year period (this timescale chosen for reasons of consistency in comparing the options). In addition it was noted that there would remain significant operational inefficiencies arising from both the dispersed pattern of buildings and the inherent problems associated with the age and configuration of the existing building stock.

2.5 As matters stand currently a great deal of work has been undertaken since last September in order to expedite delivery of the new Hub building to enable vacant possession of the current Civic Offices by the target date required by HDD (about mid-2017). The current programme and related costs are consistent with the budgetary approval previously given for the scheme and work has commenced including demolition of the former school building and commencement of the ground preparation works, with planning permission for the new building having been secured. The Council's share of the costs incurred to date is about £940k.

2.6 The key issue that has emerged in recent weeks is that HDD has reviewed its position in respect of the Ryecroft scheme following the so-called "Brexit" decision. Your officers met with their representatives last week and there was discussion around a 'proposal' from HDD as to how they wished to proceed with that scheme and that position was submitted formally to the Council yesterday (see confidential Appendix A). The key implication of the latter is that the Council's share of the capital receipt would not now be realised until the spring of 2018, some nine months later than had been intended.

2.7 The consequences of the deferred receipt, taken together with the Council's shortage of capital funds, means that the Council needs to consider its' approach to the two projects. At this stage the County Council has been informed that the Borough Council is unable to support the project proceeding until it has clarified its' position, particularly in respect of the approach to financing.

2.8 Given that there was a substantive business case to proceed with the Civic Hub, and that the Council has already committed substantial funding on the project to date, the main issue is how the Council approaches the funding of its share so that the project can proceed to completion. For the sake of clarity it should be noted that the original option 1 (refurbish the existing Civic Offices) would be significantly less justifiable now than at the time of reporting to Council in September 2015 because the Borough Council would not only have to incur the capital cost of refurbishing the building on its own but it would have lost the income from the partner tenants which amounts to about £350k p.a.

2.9 This decision needs to be made as a matter of urgency because your officers have been advised that the cost of suspending works on the new Hub building is around £25k per week (plus overheads and profits, so likely to be towards £30k); this is a cost that would have to be borne by the Borough Council. It should be noted that these costs would be likely to escalate over time (taking account of impacts on programme delays, risk of rising cost of materials, etc.) so there is a risk of substantial

financial implications to this Council, as well as the risk of legal action being taken against us by our partners.

3. Options Considered

3.1. For the reasons explained above the only realistic consideration at this stage is in relation to the Council's approach to financing its contribution towards the Public Sector Hub project.

4. Proposed EMT action

4.1 To proceed with partners in the delivery of the new Civic Hub on the basis described in this report.

5. Reasons for Preferred Solution

5.1 It enables delivery of the previously-approved Civic Hub project for all the reasons cited in the previous report to Council and protects the Council's financial exposure in this regard.

6. Outcomes Linked to Sustainable Community Strategy and Corporate Priorities

6.1 Implementation of the Civic Hub project will contribute positively towards the corporate priority relating to "Borough of Opportunity" by both enabling and directly delivering significant investment and job outcomes for the benefit of the local economy.

6.2 It will enhance delivery of more effective and efficient services on a more coordinated, multi-agency, basis consistent with the key objectives associated with being a Co-operative Council.

7. Legal and Statutory Implications

7.1 The proposal is consistent with the well-being powers of the Local Authority as conferred by the Local Government Act 2000 (as amended).

7.2 The Council is obliged to achieve 'best consideration' when disposing of any property assets in accordance with S.123 of the Local Government Act 1972 (as amended).

7.3 The Council is under a duty to achieve best value / value for money in the ways that it procures goods and services.

8. Equality Impact Assessment

8.1 There are no such implications arising from this report.

9. Financial Implications

9.1 The delay in the Ryecroft project outlined above will have a significant impact on the Council's resources in two ways in respect of the Civic Hub project – i.e. additional holding costs and financing costs.

9.2 There will be additional holding costs incurred on retaining ownership of the Civic Offices for a further 9 months. These will include the business rates liability for the building (after allowing for 3 months empty property rates) together with costs involved in securing the building.

9.3 The delay in receiving the capital receipt from HDD (in respect of the Ryecroft redevelopment scheme), together with the Council's overall capital financial position, will mean that the Council will have to borrow, at least in the short term, to finance its interest in the Public Sector Hub project.

9.4 Whilst the financial and affordability modelling for the Public Sector Hub assumed that the capital costs would be funded from borrowing (i.e. there was a clear business case for

the project if it was financed by borrowing), the proposal that was agreed by the Council at its meeting on 23 September 2015 was to fund the project from a combination of the HDD (Ryecroft) receipt, capital receipts generated from asset sales and capital receipts from Right to Buy sales. The delay in receiving the HDD receipt, together with the delays in generating receipts from asset sales, will mean that in the short term prudential borrowing will be incurred. The Council approved the use of borrowing, when required, in the Annual Treasury Management Strategy that is agreed at its February meeting each year.

9.5 The estimated revenue costs of the above issues are in the region of £40k in the current financial year and approximately £300k in the 2017/18 financial year. This will have to be factored in to the Council's Medium Term Financial Strategy (MTFS) as a pressure. The MTFS will be considered by the Cabinet at their meeting in September.

10. Major Risks

10.1. The major risks at this stage are financial in nature. By approaching the financing of the Council's interests in the Civic Hub in the manner set out in the report, the Council's exposure to risk is mitigated to the best extent possible.

10.2 With regard to the Ryecroft scheme it is hoped that the deferral of the scheme will allow the investment markets to settle down and that it will be able to proceed on the revised timescale.

11. Key Decision Information

11.1 This is a key decision to proceed with the scheme on the basis described and particularly in the best financial interests of the Council.

12. Background papers

12.1 The project is supported by a comprehensive and complex series of financial modelling spreadsheets as well as a wide range of technical documents, including the building's design (which has been granted planning permission).

13. Appendices

Confidential Appendix A – email from HDD dated 26 July 2016

Confidential Appendix B – email from Kier to Staffordshire Council dated 21 July 2016.

14. Earlier Cabinet/Committee Resolutions

23.09.2015; Report to Council – authority to proceed with the Civic Hub and ryecroft projects on the basis set out in the reports.

27.11.2013; Report to Council - authority to demolish and proceed with Ryecroft marketing, authority to work with partners on the business case for Civic Offices relocation.

28.07.2010; Report to Council - Freehold Acquisition of former Sainsbury's and establish whether there is a business case to relocate from Civic Offices.