


Cabinet 28 July 2015	 TOWER HAMLETS
Report of: Corporate Director, Development & Renewal	Classification: Unrestricted
Cabinet Decision called-in: Delivery/procurement options for the new civic centre	

Lead Member	Mayor John Biggs
Originating Officer(s)	Ann Sutcliffe, Service Head, Corporate Property & Capital Delivery
Wards affected	All wards
Key Decision?	Yes
Community Plan Theme	One Tower Hamlets

Executive Summary

The delivery/procurement options for the new civic centre report had been considered by the previous Mayor in Cabinet on 8th April 2015 and was called-in by Councillors Rachel Blake; Rachael Saunders; Amina Ali; Shiria Khatun and Councillor Clare Harrison. This is in accordance with the provisions of rule 16 of the Overview and Scrutiny Procedure Rules in Part 4 of the Council's Constitution.

Recommendations:

The Mayor in Cabinet is recommended to:

- A. Reconsider the decision taken on 8th April 2015, in light of the comments and observations of the Overview & Scrutiny Committee and the DCLG Commissioners.
- B. If minded to amend the previous decision, it is recommended that the Mayor agree that a further report should be brought to the next convenient meeting of Cabinet that enables the review which the Overview & Scrutiny Committee has recommended to be carried out.

1. REASONS FOR THE DECISIONS

- 1.1 Following the publication of the decisions from the April 2015 Cabinet meeting, five members of the Council called-in the decision on the delivery/procurement options for the new civic centre.
- 1.2 That call-in requisition was considered by the Overview & Scrutiny Committee in May 2015, who determined that it should be referred back to the council's Executive for reconsideration.
- 1.3 In addition, the DCLG Commissioners have commented on the proposals set out in the report, specifically in relation to their role in providing consent before the council enters into any commitment to dispose of real property. The Commissioners have stated that their preference is to separate the disposals of surplus sites from the letting of the contract for the design and build of the new civic centre.
- 1.3 Having considered the comments of the Overview & Scrutiny Committee, and those of the DCLG Commissioners, officers have presented revised recommendations which are set out above.
- 1.4 Additionally, the acquisition of the former hospital site on Whitechapel Road has now been concluded, in line with the Cabinet resolution in February 2014. That resolution also asked officers to complete the further business case review. That review and assessment of the business case has informed the recommendations in this report.
- 1.5 The current lease on Mulberry Place will expire in June 2020, requiring the council to decant from the building by September 2019. The landlord of the current offices at Mulberry Place, a private investor, is currently working on a redevelopment of the East India Dock complex into a residential scheme in the near future and public consultation and formal pre application planning consultation is already taking place.
- 1.6 Notwithstanding the fact that a short term extension to the lease is being explored as part of the business continuity planning, given this probable change of use, it is likely that the council, regardless of whether there was a desire to remain post June 2020, would not be granted a further renewal of the lease. It is therefore essential to identify a viable exit route from Mulberry Place to ensure that staff are de-canted by no later than September 2019 to a new facility
- 1.7 The council must commit to a new civic centre, or face occupying a number of disparate and poorly sited buildings that will lead to inefficiencies and increased costs of operation.
- 1.8 The justification for the further consolidation of council administrative buildings into a purpose built mixed use civic hub is predicated on the disposal of some if not all current administrative sites and additional surplus sites for the capital

receipts to cross fund the new development. All these disposals would then deliver significant new housing to the borough.

2. ALTERNATIVE OPTIONS

- 2.1 It is also open to the Mayor in Cabinet to choose an alternative delivery model. This could include reaffirming the Cabinet decision of April 2015, a packaged development and disposals programme procured via OJEU. However, this is not recommended, primarily due to the comments of the DCLG Commissioners who may be unwilling to provide their consent on the disposals element of that proposal.
- 2.2 In addition the recommendation above includes design through to RIBA stage 2 Concept Design. This refers to the RIBA-specified plan of work, which organises the process of briefing, designing, constructing, maintaining, operating and using building projects into key stages. Stage 2 is concept design which includes structural design, building services systems, outline specifications and preliminary cost information along with relevant project strategies in accordance with the design programme. It involves agreeing alterations to brief and issuing of a final project brief. Officers believe that this is the minimum level of design that should be undertaken.
- 2.3 It is also open to the Mayor in Cabinet to agree to tender the scheme with no further design and due diligence undertaken by the council. However, this would place great risk and uncertainty on the Council. In soft market testing all the developers approached felt this would put a great deal of uncertainty on the developers that would be reflected in their pricing and programming assumptions.
- 2.4 An alternative option would be fully designing the scheme through to and obtain a planning consent. This option would provide increased delivery and cost certainty to the Council.

3. DECISION OF THE OVERVIEW AND SCRUTINY COMMITTEE

- 3.1 The Overview & Scrutiny Committee considered the contents of the April 2015 Cabinet report, the previous Mayor's decision (provisional, subject to call-in) in Cabinet and the information provided by officers and agreed that the decision be referred back to the Mayor and Cabinet for reconsideration with recommendations set out in this report.
- 3.2 Specifically, the Overview & Scrutiny Committee **RESOLVED**:

That, given the on-going concerns regarding site selection, cost and deliverability; the lack of cross party support for the project; and the significant change now proposed to the delivery mechanism, the report should be referred back to the Executive with a recommendation that the project should be paused to allow the new Mayor the opportunity of a

stop/go review and that in the meantime work should be progressed to find solutions to the concerns raised by members.

4. THE MAYOR IN CABINET'S PROVISIONAL DECISION

The Mayor in Cabinet's decision, published on 10 April 2015, was:

- 4.1 To agree option 2¹ as set out in paragraph 2.3 of the report, namely a packaged development and disposals procured via OJEU.
- 4.2 To adopt a capital estimate of £2.5 million to undertake investigations and complete the design to RIBA stage 2 and procure a delivery partner based on the chosen model of delivery;
- 4.3 To authorise the procurement of the required professional and technical services to undertake the work to RIBA stage 2 utilising, if available, suitable procurement frameworks available to the public sector;
- 4.4 To agree disposal of sites identified in paragraph 3.11 of this report in accordance with the Council's disposal procedure and with the requirements of section 123 of the Local Government Act 1972;
- 4.5 To note the requirement to obtain the prior approval of the Commissioners appointed by the Secretary of State prior to disposal of the sites identified in paragraph 3.11.
- 4.6 To authorise the Corporate Director, Development and Renewal, following consultation with the Service Head – Legal Services, to agree and enter into the terms and conditions of any agreements required to implement recommendations 1, 2, 3 and 4 in order to progress the civic centre project.
- 4.7 To authorise the Service Head – Legal Services to execute all documents necessary to give effect to these recommendations.

5. THE CALL-IN REQUISITION

The call-in requisition signed by the five councillors listed above gave the following reasons for the call-in:

- 5.1 We hereby call-in the Mayor's decision in Cabinet (Wednesday 8th April) with regard to the decision to agree Option 2 (as set out in paragraph 2.3 of the Cabinet report) – i.e. a packaged development and disposals procured via OJEU – raises serious concerns, particularly with regard to cost and timings.

¹ Option 2 was a packaged development and disposals programme procured via OJEU

- 5.2 The overall cost of the project raises concerns which merit full review and thorough scrutiny. The deliverability of this project is also under question, as the Mulberry Place lease ends in 2020, meaning staff have to decant by September 2019. This will leave no margin of error and require the project to be delivered precisely on schedule. There is also no clear detail on where council staff will be based in the interim period.
- 5.3 The change to the procurement route for the new Civic Centre was announced last-minute, at the Cabinet meeting itself. This decision was not fully explained and members were not given enough time to adequately consider the implications or address the downsides identified by officers.
- 5.4 The uncertainty over the loss of One Stop Shop and Idea Stores provision is of further concern. The list of disposal sites identified in the report, including the sale of Gladstone Place (the Bow ideas store) and the loss of Southern Grove as a Community Land Trust will have a negative effect on the borough and therefore merit reconsideration.
- 5.5 Members of the council have also expressed concerns over the sequence of events leading to this decision, whereby the Royal London Hospital building was acquired first – and the service delivery model considered afterwards.
- 5.6 The Civic Centre Whitechapel project also raises questions over the redevelopment of Roman Road.

6. ALTERNATIVE ACTION PROPOSED

The call-in councillors proposed the following alternative course of action:

- 6.1 That the project should be paused to allow the new Mayor the opportunity of a stop/go review; and
- 6.2 That in the meantime, work should be progressed to find solutions to the concerns raised by members.

7. DECISION OF THE OVERVIEW AND SCRUTINY COMMITTEE

- 7.1 Following consideration of the call-in, the Overview and Scrutiny Committee resolved as follows:

“That, given the on-going concerns regarding site selection, cost and deliverability; the lack of cross party support for the project; and the significant change now proposed to the delivery mechanism, the report should be referred back to the Executive with a recommendation that the project should be paused to allow the new Mayor the opportunity of a stop/go review and that in the meantime work should be progressed to find solutions to the concerns raised by members.”

8. RESPONSE TO THE CALL-IN

- 8.1 The project was not progressed while the office of the Mayor was vacant, pending the election which took place on 11 June 2015. This pause allowed the new Mayor an opportunity to be briefed on the project and determine a course of action.
- 8.2 While scrutiny of the costs of the project are welcomed, the Net Present Value calculations make it clear that of the three feasible civic centre options, while the Whitechapel option is not the cheapest, it brings forward the most housing units. In addition, it acts as a catalyst for the long-awaited regeneration of the Whitechapel area, helping make the Whitechapel Vision masterplan a reality.
- 8.3 In relation to the timetable, it should be noted that due to delays in the project the council is now faced with the prospect of a double decant – the need to move out of the current town hall before the new civic centre is ready for occupation – and/or an expensive extension to the lease. Officers have been taking regular reports to CMT, alerting them to the risks associated with the project, as well as the business continuity planning in progress. Once detailed business continuity options have been developed, these will be presented to the Mayor in order to indicate the preferred option.
- 8.4 It is noted that the Mayor in Cabinet agreed (provisionally, subject to call in) one of the procurement options that was set out as an alternative, rather than the one set out in the first officer recommendation. It should also be noted that the range of options, set out in paragraph 2.3 of the Cabinet report, were all available to the council as they complied with the council's procurement procedures as well as the relevant legislative requirements. Each option was set out with the advantages and disadvantages but they were all equally capable of delivering a new civic centre.
- 8.5 Pursuant to the Directions to the Council of the London Borough of Tower Hamlets, issued by the Secretary of State for Communities & Local Government on 19 December 2014, the prior written consent of the Commissioners has to be sought before the council enters into any commitment to dispose of any real property. Subsequent to the April Cabinet meeting, the Commissioners have indicated that their preference would be to not package the development of the civic centre with the disposal of the identified surplus sites (either option 3 or 4).
- 8.6 On the basis of the above, officers have recommended that, in considering this call-in, the Mayor in Cabinet should opt for one of the options that handles the disposals separately to the letting of a contract for the development of the new civic centre. This will possibly lead to increased cost as the developer will only make their profit on the construction cost and not on a longer term debt repayment; however it also brings with it the possibility that separate disposals will potentially deliver higher values though this will depend on the market conditions at the time.

- 8.7 While noting the Overview & Scrutiny Committee's concerns around the One Stop Shop and Idea Store, the proposals in the report do not intend to remove that provision. Notwithstanding any future changes in service provision, the current intention is to retain that provision. The redevelopment may also allow the provision to be enhanced by securing improvements in existing provision as part of any disposal and subsequent redevelopment.
- 8.8 The purchase of the Royal London Hospital has been driven by a number of factors. Firstly, the council has known that the lease on Mulberry Place expires in 2020, requiring the council to vacate the building by September 2019. This has been subject of discussion at the Corporate Management Team, the Mayor's Advisory Board and Cabinet on a number of occasions since 2012. This discussion was predicated on the consolidation of the council's administrative functions onto one site.
- 8.9 The site was purchased on the understanding that the council could develop it with a range of corporate structures in mind. The key principle of the delivery model was consolidation. A further piece of work is to identify a vision for how the organisation will look in 5-10 years' time is currently being carried out by the Corporate Management Team; this will allow a more detailed brief to be developed for the site. The nature of the site means the building can be increased or reduced in size, depending on the needs of the council and the output of the vision.
- 8.10 The site was also purchased as on the basis of there being very few sites in the borough that could satisfy the council's requirements. The only other potential site was the Commercial Road site (the former Renault showroom) which comes with a range of limitations. These include being in a predominantly residential area, the limited transport links in the immediate vicinity and the site abutting a conservation area.
- 8.11 In addition, the old Royal London Hospital building was only available for a limited period of time after being placed on the register of public assets. If the council had not acted within that window, the site may have been sold to another public sector organisation, or the council may have had to subsequently bid for it in the open market, placing the council at a significant financial disadvantage as the council would be competing for the site in the open market, against a range of uses. The council identified that the site could cost as much as £30m, depending on the use.
- 8.12 In relation to the final point, the development of the civic centre in Whitechapel does not prevent or otherwise obstruct the redevelopment of Roman Road and the surrounding areas. In fact, the redevelopment of the council's surplus sites in those areas could help act as a catalyst for regeneration – both by securing concessions as part of the sale of the sites but also via the planning process.

9. COMMENTS OF THE CHIEF FINANCE OFFICER

- 9.1 Following the consideration of the options for the delivery and procurement of the new Civic Centre by the Mayor in Cabinet on 8 April 2015, and the subsequent report call-in that was considered by the Overview and Scrutiny Committee on 12 May 2015, this report presents revised proposals for agreement.
- 9.2 The council pays approximately £5 million per annum in lease and service charges for the Mulberry Place building and in the longer term officers consider that the lease is unlikely to be extended beyond its June 2020 expiry date. It is therefore necessary that alternative arrangements for a civic centre are put in place now in order to generate long-term savings. The report outlines the reasons why the lease is unlikely to be extended in paragraphs 1.5 and 1.6.
- 9.3 As part of the budget process for 2014-15, funding of £12 million was set aside as an initial provision for the development of a new Civic Centre, with the former Royal London Hospital being formally acquired from the Bart's Health NHS Trust in January 2015. After allowing for associated fees and taxes, an uncommitted sum of just in excess of £2,500,000 remains. This report seeks approval to utilise this sum to complete the design to RIBA Stage 2 with a view to procuring a delivery partner. A corresponding capital estimate of £2,500,000 is therefore sought which will be fully financed from the earmarked resources remaining.
- 9.4 On completion of the design to RIBA Stage 2, the Council will be in a position of being able to invite developers to bid against a known baseline against which they can be measured, meaning that the Council will have an increased level of certainty over deliverability and cost. There will however still be scope for the developers to be innovative in relation to design and use of space within the civic centre.
- 9.5 Prior to the decision to relocate the civic centre to Whitechapel, the council appointed an external property management company advisor, GVA, to undertake financial modelling to inform the outline business case assessing the need for relocation. The financial assessment showed that significant savings are achievable compared to remaining in Mulberry Place, although the alternative options, including relocation to the Royal London Hospital site, all involved significant capital expenditure over the years from 2016 to 2019.
- 9.6 Over a 40 year period significant savings should be achieved compared to the existing arrangements. However, the relocation will take a number of years to complete, with savings only being realised from 2020 onwards. In the medium term revenue costs will increase while the rationalisation takes place.
- 9.7 Once the project has been to RIBA stage 2, further reports to Council will be presented to seek approval for the proposed funding arrangements for the full project and the necessary capital estimates to be adopted, with full budgetary

provision identified within the Council's capital programme. These will be based on a full assessment of the financial implications and identification of resources available, and will necessitate an evaluation of the impact on the Council's borrowing requirement as well as the medium term revenue implications.

- 9.8 Modelling suggests that these on-going additional revenue costs will rise significantly until the expiry of the Mulberry Place lease, with the costs being incurred at a time when the Medium Term Financial Plan of the council is already demonstrating the need for significant annual budget reductions. Additional revenue savings would need to be identified in addition to the ongoing savings targets that have been assumed within the MTFP, and in order to mitigate these costs it will be necessary to generate capital receipts from asset sales to 'cross subsidise' the scheme.
- 9.9 The realisation of capital receipts from the disposal of assets that are declared surplus to the council's operational requirements is essential if the relocation project is to be viable. Previous reports provided authorisation to proceed with the disposal of assets to finance the relocation, but the risk of not generating sufficient sale proceeds rests with the council. In line with the preference of the Commissioners, it is proposed that the disposal of surplus sites is treated completely separately to the letting of the design and build contract.
- 9.10 The council has a statutory duty to ensure that any decision is justified on a value for money basis, with the wider potential regeneration benefits being considered in addition to the business case. The 'Whitechapel Vision Economic and Employment Impacts Study' report previously considered by Cabinet set out the anticipated impact on the Whitechapel area of the proposals within the masterplan area. These are not easily financially quantifiable but should be considered in the context that relocation of the civic centre will support the regeneration of the area.
- 9.11 Any relocation to a new civic centre will necessitate consideration of various council working practices, including those relating to flexible working, as well as an assessment of the on-going IT requirements.
- 9.12 As stated above, it should be noted that at this stage sufficient funding has only been set aside for the site purchase and initial design work. Any decision in relation to construction and development will be subject to further Council decision based on a full assessment of the financial implications and the agreed procurement route.

10. LEGAL COMMENTS

- 10.1 The Overview and Scrutiny Procedure Rules specify the process to be followed where a decision is called-in. Paragraph 16.7 of those Rules provides that the Committee may refer the decision back to the Mayor or Executive for reconsideration in the event that it is still concerned after consideration at a call-in. Upon referral back, the Committee should set out

its concerns and the Mayor or Executive should reconsider the decision within 5 working days or as soon as is reasonably practicable. After reconsideration, the Mayor or Executive may adopt a final decision, either with or without amendment.

11. ONE TOWER HAMLETS CONSIDERATIONS

- 11.1 Consideration has been given to the potential impacts of the recommendations in this report on people with protected characteristics within the meaning of the Equality Act 2010. An analysis document that was prepared for the April 2015 report is appended.
- 11.2 One of the issues with buildings of a certain age, including many of the assets currently in the council's ownership, is that they are not fully accessible for those people with physical disabilities, and ensuring full accessibility and DDA compliance will be prohibitively expensive. The purpose-built civic centre development will allow the council to design the building so as to ensure it is fully accessible. This will be specified as part of the design process to ensure it is a central consideration in the design of the building.
- 11.3 When compared to Mulberry Place, the central location, transport links, and design of a purpose-built civic centre in Whitechapel Road will increase the openness and approachability of the civic centre, encouraging participation and engagement in the democratic process as well as facilitating easier access to services. In addition, a new purpose-built council chamber can design out many of the physical issues that exist with the Mulberry Place council chamber. This includes poor acoustics and limited sight lines, hampering involvement in the democratic process.
- 11.4 Any procurement exercise will ensure that equalities and diversity implications – and other One Tower Hamlets issues – are addressed through the tollgate process, and all contracting proposals are required to demonstrate that both financial and social considerations are adequately and proportionately addressed.
- 11.5 In particular the delivery of the new civic centre will in line with all other major development projects ensure and require early consultation with the whole community and engagement to ensure that the maximum benefit can be drawn for the local community in terms of employment and training.

12. BEST VALUE (BV) IMPLICATIONS

- 12.1 The council is a best value authority under the Local Government Act 1999. This means the council is required to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness” (LGA 1999, section 3[1]).

- 12.2 The proposal in this report supports the council's best value duty. The new civic centre, by consolidating all the council's administrative activities onto one site, will allow efficiencies to be achieved while also allowing the delivery of housing on the identified surplus sites. The letting of the design and build contract will be in line with the relevant legislation and the council's own procurement procedures, which both help deliver on the council's best value duty.

13. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 13.1 The delivery of any new building is an opportunity to better the green credentials of the occupier and seek to improve their environmental effect.
- 13.2 The current Council stock is old and in poor condition with inefficient services and building fabric. The current town hall at Mulberry Place is also particularly ineffective in environmental terms.
- 13.3 The new civic centre offers a number of opportunities to improve the green and environmental credentials of the Council.
- 13.4 The location of the civic centre is in the centre of a public transportation hub offering the opportunity for all staff and members to get to the centre without the use of private cars. The non-provision of car parking (other than disabled) will ensure that the travel carbon footprint of the staff is dramatically decreased.
- 13.5 The effective reuse of a substantial part of the original hospital building in recycling it will also reduce the level of new build whilst allowing the thermal and environmental services upgrade to take place. The new building will be designed to deliver an efficient and environmentally sustainable building replacing the existing dated and inefficient stock.
- 13.6 Finally the new civic centre provides the opportunity to change working practices, to reduce waste and paper

14. RISK MANAGEMENT IMPLICATIONS

- 14.1 There are a number of key risks that can be identified under the following headings.

Programme

- 14.2 With no flexibility on the lease end date at Mulberry Place the delivery of the new civic centre must happen on time. The best mitigation for this would be the use of a suitable and procurement compliant framework to allow an OJEU compliant procurement but in a shorter period of time. In the absence of a suitable framework, a full OJEU procurement exercise may be required. Officers are discussing the possibility of a lease extension with the landlord. This, if granted, would only be for 1-2 years.

- 14.3 There is sufficient time available to deliver the project but there is no float available in the critical path.
- 14.4 A timely decision is needed to enable the technical team to be appointed and the procurement and design to be started.
- 14.5 In order to mitigate some programme risk and additionally to enable greater certainty in design and therefore cost, it is proposed to let a separate enabling contract in the short term. This contract will soft strip the building of joinery, services, asbestos and redundant fabric and enable effective opening up and investigations. This will allow effective heritage asset assessment, structural investigations and design this contract will also allow the cleaning up of asbestos and weatherproofing the building to prevent degradation of the fabric in the interim period before works commence in earnest. It is estimated that this work will cost in the region of £2-3 million which is cost that will be incurred in any event.

Cost

- 14.6 The construction market is currently very active and there are shortages of both labour and materials. This combined with a pent up cost inflation from a long period of cost stagnation means that the coming years will see significant cost inflation, alongside developers being selective about schemes they will bid for.
- 14.7 The best mitigation is to buy early and fix costs. Minimising uncertainty for the contracting market will mean less risk pricing. To this end the market has confirmed that the fuller the design the better before going out to tender.
- 14.8 Throughout the course of the project the business continuity plan will be developed reviewed and evolved looking at alternative risk mitigations for programme delays including alternative short term accommodation and working practices.

Interdependencies

- 14.9 The current depot on the Commercial Road site will need to be vacated in order to dispose of this site. The delivery of a CLC service delivery plan is critical to support the development of the depot strategy in order to give certainty over the vacant possession of this site.
- 14.10 The new civic centre project has been progressing and has made a number of informed assumptions about the future look of the Council. The Council has now started looking at the business change and structure and size of the Council in the future. The proposed new civic centre can accommodate a flexible approach to the future shape and size but this must be firmed up before construction and preferably before the scheme is tendered. Failure to do so would be an opportunity lost to the Council to ensure that the new civic centre is a perfect fit for the long term and allow the delivery team to consider future flexibility within the building with regard complementary alternative use and income generation.

- 14.11 An indication therefore of the operational structure of the Council and directorate size would be a minimum requirement and would be needed by summer 2015. This piece of work has now been initiated by CMT.
- 14.12 The current 5 year asset strategy for the Council is due for updating and refreshing. This is currently proving difficult in the absence of information from some areas on their future needs. Without updating this strategy the Council runs the risk of not maximising its current stock and releasing further assets for disposal.

15. CRIME AND DISORDER IMPLICATIONS

- 15.1 There are no immediate crime and disorder implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- As appended

Appendices

- Cabinet report and Appendix of April 2015

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- None.

Officer contact details for documents:

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