

Cabinet Decision 5 February 2014	
Report of: Aman Dalvi, Corporate Director, Development & Renewal	Classification: Unrestricted
Asset Efficiency Review (New Civic Centre)	

Lead Member	Cllr Alibor Choudhury
Originating Officer(s)	Ann Sutcliffe, Service Head, Corporate Property & Capital Delivery
Wards affected	All wards
Community Plan Theme	A Great Place to Live
Key Decision?	Yes

Executive Summary

Following the council's recent consolidation of its civic centre and administrative functions into one site at East India Dock – Mulberry Place – Members have asked officers to evaluate the potential benefits of relocating the civic centre to a new site to be owned and developed out for and on behalf of the council.

While surrendering the lease to Anchorage House realised significant savings of circa £7m per annum, Mulberry Place remains a leased building and costs the council approximately £5 million per annum to a third party landlord. Mulberry Place is also widely considered to be a poor location to best serve the needs of the borough's residents.

This report provides high level feedback on the outline business case that was requested by Cabinet and officers' recommendations arising from it.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Confirm one of the following options as the preferred option for the new civic centre:
 - Whitechapel – former hospital site and preferred location
 - Commercial Road – depot site
2. If the Whitechapel site is the preferred option:
 - a. Authorise the Corporate Director Development and Renewal to complete negotiations with Bart's Health NHS Trust for the purchase of Grade 2 listed former hospital building/site in Whitechapel on

Whitechapel Road for the purpose of a new civic centre. The purchase cost and offer, of up to the sum specified in the exempt section of this report, is on an unconditional basis.

- b. Agree commencement of the design and procurement work streams.
 - c. Agree preparation of a final financial business case to provide detailed analysis to satisfy the procurement appraisal as detailed in the outline business case and confirm the proposed exit strategy should the council not proceed with the scheme.
 - d. Agree disposal of the surplus sites identified within the outline business case in accordance with the proposed programme.
 - e. Agree expenditure of up to £200k to implement recommendations b, c and d above.
3. If the Commercial Road site is the preferred option:
- a. Agree commencement of the design and procurement work streams.
 - b. Agree preparation of a final financial business case to provide detailed analysis to satisfy the procurement appraisal as detailed in the outline business case.
 - c. Agree disposal of the surplus sites identified within the outline business case in accordance with the proposed programme.
 - d. Agree expenditure of up to £200k to implement recommendations a, b and c above.
4. Authorise the Corporate Director Development and Renewal, after consultation with the Head of Legal Services, to agree the final terms and conditions of any agreement required to implement the decisions in 2 and 3 above.
5. Authorise the Head of Legal Services to execute all necessary contract documents to implement this decision.

1. REASONS FOR THE DECISIONS

- 1.1 In line with the Executive Mayor and Cabinet instructions at February 2013 Cabinet (81/123) officers have completed an outline business case.
- 1.2 The outline business case has been reviewed and assessed by officers to inform the recommendations within this report.
- 1.3 In addition to utilising existing council owned assets for the proposed new civic centre, the acquisition of a site within the proposed Whitechapel regeneration area has also been considered at the request of members and in response to the recently adopted Whitechapel Masterplan.
- 1.4 In addition to looking at the development of a civic centre on Commercial Road, officers have also undertaken an assessment of the benefits of a new civic centre in Whitechapel. A comparison has been made between the Commercial Road site, the Whitechapel site and the current base occupation of Mulberry Place. This analysis has shown the benefits derived from the development of a new civic centre – either on Commercial Road or in Whitechapel. The purchase and development cost can be covered by the sale of existing assets and on a Net Present Value basis there is an annual saving of over £1 million per annum in either one of the relocation options as presented.
- 1.5 Officers have assessed and built upon the assumptions outlined in the ‘in principle’ stage for a consolidated civic centre. NPS Group were commissioned to complete an office space study, including a detailed occupancy audit of Mulberry Place to assess the utilisation of space following the consolidation from Anchorage House to Mulberry Place. The resultant analysis has allowed officers to make an assessment on the amount of space required for a new civic centre as part of a purpose built mixed use development.
- 1.6 If the council cannot commit to a new civic centre, it may need to enter in to a new lease arrangement for Mulberry Place. However, there are a number of commercial issues that put this option at risk. Those issues are set out in the exempt section of this report.
- 1.7 In addition to those issues set out in the exempt section of this report, the current building is now in very real need of a complete refurbishment including central services at some considerable cost and time to enable the future long term use of the building.
- 1.8 Officers have been in discussion with Barts Health NHS Trust in relation to the former Royal London Hospital site, which has been declared surplus to their operational requirements. The site was placed on the Public Register of Surplus Assets for the prescribed 40 day period in which officers submitted an expression of interest. The expression of interest was successfully acknowledged and the Trust has formally invited the council to submit a

financial offer for the unconditional freehold purchase of the site. In presenting an option, within the recommendations of this report, to purchase the site, the project team has undertaken further due diligence to ensure that development proposals are deliverable and robust. Paragraph 3.10 of the exempt section of this report sets out the proposed exit strategy if the council were to choose not to proceed with the development.

- 1.9 A purchase of the site can proceed on the basis of an agreed valuation between the council and Barts Health NHS Trust.
- 1.10 The justification for the further consolidation of council administrative buildings in to a purpose built mixed use civic centre is predicated on the disposal of some, if not all, current administrative sites, being;
 - Mulberry Place – leased until 2020
 - Jack Dash House – Long leasehold until 2139
 - Albert Jacob House – LBTH Freehold
- 1.11 Additional surplus asset disposals may be required to contribute to the programme of works. The council's use of assets and resources in support of key priorities can help ensure effective delivery of vital front line services.

2. ALTERNATIVE OPTIONS

- 2.1 A number of options have been considered in the outline business case. The options which have been recommended by officers to be taken forward to the next stage of the programme are summarised below.
- 2.2 **CONTINUE CURRENT POSITION** - Extend existing civic centre lease; this option will continue to be modelled by the team to ensure our baseline assessments are robust and to monitor efficiency savings being generated. However, for reasons set out in the exempt section of the report, a renewal of the lease is not recommended.
- 2.3 **CIVIC CENTRE OPTION** – (a) Enter into negotiation with Barts Health NHS Trust for the procurement of the former hospital building in Whitechapel. Upon completion of the purchase build a purpose built consolidated civic centre or (b) build a purpose built consolidated civic centre on the Commercial Road site or (c) bring back into use all or some of the sites identified above for council business activities.
- 2.4 **DISPOSAL OPTIONS** – Based on current occupancy and utilisation of the council's existing estate, in the context of providing new space requirements, the council can significantly improve the utilisation of its infrastructure. Any new development will commit and require significant funds. In order to mitigate the effect of borrowing on the council's revenue commitments, there are a number of disposal options available which can offset the medium term impact associated with the site procurement and subsequent construction. Officers consider it necessary to fund capital development from these receipts.

- 2.5 **MOVE TO EXISTING COUNCIL BUILDINGS** – Having reviewed the council’s existing assets, none of the buildings currently owned by the council are of sufficient size to accommodate the forecast service needs. At best the council would need to decant into five, or possibly six, buildings. All these buildings would need substantial refurbishment works and leave the council dispersed around the borough. This would mean operating in an inefficient and fragmented way, having a detrimental effect on service performance and efficiency and reducing the flexibility to manage the size of the organisation going forward. Paragraphs 3.28 to 3.30 provide more detail.

3. DETAILS OF REPORT

BACKGROUND

- 3.1 The council recently consolidated its civic centre and administrative functions at East India Dock into one site, Mulberry Place, surrendering Anchorage House to realise significant savings of circa £7m per annum.
- 3.2 Whilst continuing to rationalise administrative space, East India Dock is still widely considered to be a poor location to best serve the needs of the borough’s residents. East India Dock Estate, whilst reasonably served by public transport, is located in the extreme east of the borough in close proximity to Canary Wharf and has perceived problems of customer access and approachability.
- 3.3 Mulberry Place is a leased building and costs the council approximately £5 million per annum to a third party landlord. The exempt section of the report sets out the reasons why a renewal of the lease is not recommended.
- 3.4 In addition to perceived remote access, rental costs in this part of London remain expensive and members have asked officers to evaluate the potential benefits of re-locating the civic centre to a new site to be owned and developed out for and on behalf of the council.
- 3.5 The council has occupied Mulberry Place since July 1993. The lease has been extended twice in the intervening period. On each of these occasions the council reviewed its use of assets and options for relocation out of the East India Dock complex. However, the preferred route at that time was to continue to extend the lease. For reasons set out in the exempt section of the report, this option is no longer available to the council.

CURRENT OCCUPANCY RATES

- 3.6 NPS Group were commissioned to look at the council’s occupancy rates in Mulberry Place as a result of the smarter working programme, which relocated staff from Anchorage House into the newly refurbished building.

- 3.7 In addition to this, NPS Group were asked to provide the council with option assessments for the provision of new facilities and options for how its current workforce could be assessed to deliver a smaller building, thus saving on capital and on-going revenue costs, alongside the release of assets.
- 3.8 By making these decisions it is anticipated that this programme of work will help the council achieve some of its current revenue saving requirements in the medium to long term financial plan, however noting that it would require a significant element of spend to save which will require utilisation of the council's borrowing capacity, and consequential revenue implications, in order to finance the development.
- 3.9 The occupancy audit results are set out below.
- 3.10 The council has 3103 administrative staff accommodated in 4 main offices. These are Mulberry Place (2,388), Jack Dash House (243), John Onslow House (158) and Albert Jacob House (203). Of the staff in Jack Dash house, 195 are employed by Tower Hamlets Homes. For planning purposes it was assumed that there are currently 2,908 staff (excluding the 195 Tower Hamlets Homes staff).
- 3.11 The audit identified that while space in these buildings is generally well used there remains scope for better use still. With improved space utilisation and further introduction of flexible working, the amount of office space required by the council can be reduced significantly. This reduction will, whilst providing sufficient space to continue to deliver the council's front line services, make revenue savings; reducing the need to find longer-term savings in other services.
- 3.12 A re-designed, modern, technology enabled work environment as well as improving resource efficiency can contribute to enhanced productivity, staff well-being, client perception and promote a positive image of the council.
- 3.13 An audit of office occupancy was undertaken at Mulberry Place over an elapsed two week period (17th April to 30th April 2013) using floor-plans updated with current furniture layout as appropriate. Each workstation and meeting area on each floor was numbered and then monitored through hourly observation during peak office hours of attendance, either morning (9.00 to 12.00) or afternoon (13.00 to 17.00); with the results collated to give a weekly average. During the audit each workstation was identified as occupied, 'warm' 'cool' or 'vacant'.
- 3.14 For Jack Dash House, John Onslow House and Albert Jacob House a one day 'snap shot' audit was undertaken on 17th April or 18th April. A storage audit was not undertaken in these buildings.
- 3.15 The overall occupancy rate for the main administrative building (Mulberry Place) as a whole over the audit period was 68%. This occupancy level is broadly similar on a daily basis with perhaps, as would be anticipated, a slightly lower level on Friday. This level of occupancy is high and with the

existing 6:10 workstation to staff ratio the general conclusion is that space in this building is being used well. This level of occupancy is close to what could be considered as a 'best practice' target of 70% and any future office provision should seek to replicate and enhance this level of space utilisation.

Table 1 – Mulberry Place Average Occupancy

	Average % morning occupancy	Average % afternoon occupancy	Average % daily occupancy
Mulberry Place (all floors + all services)	69%	66%	68%

Table 2 – Mulberry Place Occupancy by floor

Floor							
Level 0	Level 1	Level 2	Level 3	Level 5	Level 5	Level 6	Level 7
72%	57%	68%	72%	67%	65%	70%	56%

Table 3 – Satellite Offices Occupancy (single day snap shot audit)

	Albert Jacobs House	John Onslow House	Jack Dash House
Average % daily occupancy	56%	42%	53%*

*Jack Dash was measured at 48% but at the time of the audit the Housing Services Team was on an away day so were excluded from the analysis.

3.16 Based on the results of the occupancy survey it is proposed that any new development utilises the following criteria:

- 8.5 m2 per workstation
- 20% fixed and 80% flexible working
- 6 workstations for every 10 flexible staff
- 1 meter of linear storage space per member of staff

3.17 The allocation of storage space needs to be considered in conjunction with the IT strategy for the council. The IT work stream will need to address the council's corporate needs, creating a proper electronic document management system to ensure floor space is effectively utilised as this comes at a premium cost.

BUILDING A NEW CIVIC CENTRE

3.18 Officers have identified a number of individual project objectives and assessed the options against them, using a traffic light system to reflect the status. The outcome of that exercise is set out in paragraph 3.37. The project objectives are:

- Making the One Tower Hamlets approach a reality;
- Raising performance and maximising efficiency;

- Delivering on major projects;
- To provide more affordable homes;
- To improve the education environment;
- Assisting local people into employment;
- To reduce crime and the fear of crime;
- To work to achieve a clean borough;
- Improving the environment and tackling climate change; and
- Produce revenue savings.

WHITECHAPEL

- 3.19 It is evident that the construction of a new civic centre in Whitechapel has a significant benefit to the borough. A new civic centre at Whitechapel enhances the project objectives across most of the council's chosen indicators. The main points being:
- Making the One Tower Hamlets approach a reality by providing impetus to the regeneration of Whitechapel and locating the council in a more accessible town centre.
 - Raising performance and maximising efficiencies through the optimisation of council office accommodation and compliance with latest building regulations through new build facilities.
 - Longer term revenue savings through occupation of council owned accommodation, whilst noting the short term cost associated with procurement and construction of the site.
- 3.20 In January 2013, following a competitive tender process the council procured the services of Building Design Partnership (BDP) (town planning/architecture/urban design) and their sub consultants, Montagu Evans (property), Regeneris (economic) and Urban Flow (transport) to commence work on the Whitechapel Masterplan.
- 3.21 The use of this site helps the council to achieve the objectives set out in the adopted Whitechapel Masterplan and will provide a significant boost to the Whitechapel redevelopment plans, whilst placing the new civic centre at the heart of the community and protecting the retention of a locally listed building by giving it a civic presence.
- 3.22 The Masterplan was considered by Cabinet in September 2013, and adopted in December 2013, following statutory consultation. It sets out an ambitious vision for the future development of Whitechapel to ensure it can capture the benefits of the new Crossrail station. It will look to promote high quality new architecture whilst preserving and enhancing the area's unique built heritage. It will also ensure new development makes a significant contribution to the Mayor's overarching priorities for the borough including delivering more affordable family homes, providing a wide range of employment opportunities and creating safer, cleaner and inclusive neighbourhoods for all to enjoy.

- 3.23 If the Mayor in Cabinet is minded to proceed on the basis of the Whitechapel location, it is recommended that officers proceed with negotiations with the Barts Health NHS Trust to enable a freehold purchase of the site and include this in a final business case which will incorporate a detailed and refined financial model to build upon and ratify the outputs brought forward under the outline business case.
- 3.24 As part of the due diligence process, the council will need to understand the outline brief and design principles for the site to ensure that its requirements can be met. A clear understanding of the space and service delivery requirements will be key to completing this diligence.
- 3.25 The Whitechapel site will also allow officers to consider alternative non-council activities which can be incorporated into the build contract to tie into the wider Masterplan. This will bring increased activity and opportunities for complementary uses, including commercial activities, which will need to be financially viable to protect efficiencies being targeted.
- 3.26 There is an additional report on the Cabinet agenda setting out the social and employment opportunities arising out of the provision of a new civic centre in Whitechapel.

COMMERCIAL ROAD

- 3.27 The current depot site located in Commercial Road was reviewed as an option for a new civic centre. This would require the relocation of the functions on the existing site. The site may be able to accommodate a mixed use development including housing with the civic centre. However, in reality, the nature of the surrounding area means that the mass of development that could be delivered on the site is likely to be restricted, in particular by height and (in the case of the residential aspects) lack of amenity space. The scheme would, in any event, be a dense solution and it should be noted that it would result in a significant increase in users and office accommodation in an area which is primarily residential and not deemed a 'town centre'. This poses a significant risk to securing planning consent.
- 3.28 Should the Commercial Road site be considered the preferred route however then as part of the due diligence process, the council will need to understand the outline brief and design principles for the site to ensure that its requirements can be met. As with the Whitechapel site, a clear understanding of the space and service delivery requirements will be key to completing this diligence
- 3.29 Should this site not be utilised however it is modelled to be disposed of for housing development to enable the Whitechapel development to proceed with a minimum capital impact on the council.

RE-COMMISSIONING OF EXISTING VACANT OFFICE BUILDINGS





















- 3.30 The project team have also analysed the existing assets within the council's portfolio to determine whether there is an alternative and less costly way of accommodating the council without building a new civic centre.
- 3.31 Analysis has shown that there is no single property capable of providing the level of accommodation required for council service provision. Indeed, even with the current forecast, at least five and possibly six buildings would need to be recommissioned to enable the council to be accommodated.
- 3.32 Recommissioning buildings is relatively expensive, requiring almost complete strip back and renewal of the building fabric and services. Even then the buildings are inefficient and will lead to a fragmented organisation operating with poor efficiency and will constraint the ability of the council to flex in size in response to the changing face of public sector service provision, often driven by external factors such as Government funding levels and the state of the economy.





















DISPOSALS





- 3.33 The provision of a new civic centre will allow the council to move out of its current location in the Mulberry Place. In addition to this there is an opportunity to consolidate a number of other satellite offices to drive up efficiencies. Disposing of surplus offices will release funding which would have otherwise been expended on the security, maintenance and upkeep of those surplus assets. During the coming years, when significant cuts to public sector funding will be realised, the provision of lean and efficient buildings, and disposal of surplus assets, will help protect front line staff and services.
- 3.34 Consolidated office spaces can be structured to enable the council to release some sites for development or disposal. The sites which have been identified which are most suitable for this purpose are:
- Albert Jacob House
 - Jack Dash House, through a marriage and development license with the freeholder
- 3.35 Initial work done in defining the feasibility of a new civic centre included the use of Commercial Road. It should be noted that this site has the potential to be the site of a wider consolidation project for the delivery of refuse and transport services.
- 3.36 The disposal of sites will release capital receipts back to the council to offset any procurement or construction costs. The application of these disposals are critical in mitigating the short to medium term financial impacts, and will form the basis for officers seeking further approvals as a result of completing detailed business cases for approval.

OPTIONS APPRAISAL

3.37 Each of these options has undergone an assessment against the individual project objectives. The key indicators for the project are summarised in the table below. The use of a traffic light system has been employed to reflect the status achieved.

	Do Nothing	Whitechapel Civic Centre	Commercial Road Civic Centre	Re-commission existing assets
Making the One Tower Hamlets approach a reality	No. Maintains the status quo. 	Yes. Will enable the council to work efficiently and be more accessible to the public. 	Yes. Will enable the council to work efficiently and be more accessible to the public. 	Partially, will enable the council be more accessible to the public. However, multiple administrative locations may hinder efficient processes. 
Raising Performance and maximising efficiency	No. Maintaining 4 office buildings is an inefficient use of resources. 	Yes. Will raise performance and increase efficiencies achieved. 	Yes. Will raise performance and increase efficiencies achieved. 	No. Maintaining multiple office buildings is an inefficient use of resources. 
Delivering on major projects	No. Valuable and rare land resource not being optimised 	Yes. Jack Dash and Albert Jacob come forward for development. 	Yes. Could deliver homes as well as civic centre. 	No. Valuable and rare land resource not being optimised. 
To provide more affordable homes	No. Zero additional new homes would be provided. 	Yes. An additional 230 homes provided including 19 intermediate and 34 affordable rented homes by releasing the Commercial Road site for housing development 	Yes. Part of an overall package of homes being delivered though reduced due to civic centre being created. 	No. Zero additional new homes would be provided. 
To improve the education environment	No. Lack of development does not generate any S106 sums for education. 	Yes. Development of both the civic centre and consolidated offices releases S106 payments. 	Yes. Development of both the civic centre and consolidated offices releases S106 payments. 	No. Lack of development does not generate any S106 sums for education. In addition, we lose potential sites for schools. 

	Do Nothing	Whitechapel Civic Centre	Commercial Road Civic Centre	Re-commission existing assets
Assisting local people into employment	No new jobs created 	Yes. Will create a large number of local employment opportunities and add significant impetus to the regeneration of Whitechapel. 	While the construction phase of the build will provide some local employment opportunities, the residential location means there will be limited economic regeneration 	New jobs limited to the refurbishment of the actual building through supply chain. 
To reduce crime & fear of crime	No impact 	No impact 	No impact 	No impact 
To work to achieve a clean Borough	No impact. 	No impact. 	No impact. 	No impact. 
Improving the environment and tackling climate change	The existing building stock is ageing and as such is more energy intensive than more modern constructions. 	Yes. Part new build of the new civic centre and reduced car parking in conjunction with consolidation of ageing offices. 	Yes. New build, energy efficient civic centre and reduced car parking in conjunction with consolidation of ageing offices. 	The existing building stock is ageing and as such is more energy intensive than more modern constructions. 
Produce revenue savings	No impact 	Yes, via savings from operating out of 2 buildings and reduced energy costs for the new civic centre 	Yes, via savings from operating out of 2 buildings and reduced energy costs for the new civic centre 	Disparate model – increasing costs. Duplication of activities. 

	Do Nothing	Whitechapel Civic Centre	Commercial Road Civic Centre	Re-commission existing assets
Conclusion	<p>Staying in the current civic centre utilises inadequate accommodation that will deteriorate further over the medium to long term. This option does not meet the majority of the project objectives.</p> <p style="text-align: center;"></p>	<p>A new civic centre at Whitechapel enhances the project objectives across most of our chosen indicators. In conjunction it also offers a significant NPV saving against the current arrangements whilst delivering 230 homes including 19 intermediate and 34 Affordable rented homes.</p> <p style="text-align: center;"></p>	<p>A new civic centre at the Commercial Road site enhances the project objectives across many of our indicators. It also offers a significant NPV saving against the current arrangements. However the planning risk associated with a development of this nature in a residential area should be noted. In addition, a civic centre development will mean the loss of a substantial site for housing development.</p> <p style="text-align: center;"></p>	<p>Increases costs – work over multiple sites – increases risks – revenue costs.</p> <p>Not fit for purpose due to space constraints reducing the scope for flexible working.</p> <p style="text-align: center;"></p>

3.38 Four options for a civic centre have been modelled as part of the outline business case. The basis of the civic centre site modelling was the delivery of office facilities, and it has not considered alternative or additional site uses such as commercial units or residential housing. This assessment has determined that a significant saving in Net Present Value (NPV) terms can be generated from a new civic centre through the efficiencies gained by:

- consolidating and disposing of current administration sites;
- remodelling of John Onslow House to allow an occupancy ration of 6 desks: 10 staff members on a 20% fixed : 80% flexible ratio;
- reducing the area per workspace to 8.6 m²; and
- a more efficient new civic centre building, reflecting lower running costs.

3.39 Of the two alternate locations within the scope of the project for a new civic centre, it has been determined that a new civic centre at Commercial Road is able to deliver more savings in NPV terms than one at the Whitechapel site. Based on the review of the benefits of each site, a determination has to be made as to whether or not the additional savings generated by the Commercial Road site are offset by the clear additional benefits of the Whitechapel option as identified in the above table.

3.40 The final business case will seek clarification from both members and senior managers to determine how the council envisions the structure of service delivery to be achieved in the medium to long term. This consideration will

need to assess activities such as Ideas Stores, one stop shops and opportunities for community hubs to meet the diverse need of our clients, the residents of Tower Hamlets.

NEXT STEPS

- 3.41 Following Cabinet approval of the recommendations set out above, the project team will be required to produce individual final business cases to set the parameters for each development. The business cases will set out the following parameters and will require officers to seek approval from Cabinet prior to proceeding with capital works.
- Confirmation of preferred procurement route.
 - Resolution of the negotiations for the purchase of the Whitechapel site from Barts Health NHS Trust.
 - Financial analysis and affordability.
 - Risk allocation and accounting treatment.
 - Contract mechanisms and project delivery.
 - Initial technical and design diligence.
 - Stakeholder consultation.
 - Statutory process.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 This report outlines potential options for the development of a future civic centre and asks the Mayor in Cabinet to determine his preferred location. A supplementary report containing commercially sensitive information also appears in the exempt section (Part 2) of this Cabinet agenda.
- 4.2 As outlined in the report, the lease on the Mulberry Place building expires in 2020. The council currently pays approximately £5 million per annum in lease and service charges for the building, and in the longer term it is considered that the lease will not be extended, and that alternative arrangements for a civic centre will be put in place. As part of any relocation, savings should accrue to the Council in the long term – the scale of these savings will be determined on completion of the detailed business case assessment.
- 4.3 Although the report primarily outlines the position on relocation to one of two sites – the former Royal London Hospital site at Whitechapel or the Commercial Road depot site, alternative options have been considered as set out in section 2. These are:
- To seek to extend the current lease at Mulberry Place
 - To bring back into use buildings that the council currently owns
- 4.4 The technical officer's assessment has however suggested that the only feasible long term option is the construction of a new, purpose built civic centre, with the two realistic sites being either in Whitechapel or Commercial Road.

4.5 The council has a statutory duty to ensure that any decision is justified on a value for money basis. Officers have commissioned a limited high level financial assessment of the viability of the two sites, but both will be subject to a further detailed business case. The financial implications in this report are therefore based on an indicative assessment pending the completion of a final financial business case (as requested in recommendations 2b and 3b). However there is an urgency driving the decisions required in this report in that if the Whitechapel Hospital site is the preferred location, the option to purchase the site is time limited (paragraph 1.8) which would necessitate the need to commit to purchase before a full financial assessment can be undertaken. There is a significant risk involved in this approach and it is therefore essential that a full exit strategy is put in place prior to any site purchase being finalised and the Council entering any financial commitments.

4.6 **Whitechapel Hospital Site**

4.6.1 The Whitechapel option is that the site of the former hospital building on Whitechapel Road is purchased from the Bart's Health NHS Trust with the council then developing the site as a civic centre. The consolidated town hall will be supplemented by a renovated John Onslow House building to meet the council's medium term office needs.

4.6.2 As stated above, the option to purchase the site is time limited (paragraph 1.8). Following the listing of the site on the Public Register of Surplus Assets, the council has followed the necessary procedures to express an interest in acquiring the site, and has been invited to submit a financial offer.

4.6.3 If the site is purchased there will be an on-going business assessment of costs. As mentioned in paragraphs 1.8 and 4.5, it is essential that the council adopts an exit strategy to cover the eventuality that the site is purchased but that the scheme does not progress for any reason. Any exit strategy must ensure that the council's position is protected and that it is able to recover all costs of the site purchase from any necessary sale.

4.6.4 As outlined above, 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 is included elsewhere on this agenda, and sets out the anticipated impact on the Whitechapel area of the proposals within the masterplan. 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. Assessment of the implications could be undertaken using the principles adopted by the Treasury for appraisal of public projects - the 'Green Book', and should be compared to the economic benefits of relocation to the alternative sites that are under consideration.

4.6.5 Funding provision for the estimated land assembly costs of a new civic hub is available within the council's capital programme which forms part of the 'General Fund Capital and Revenue Budgets, Medium Term Financial Plan 2014-2017 and Strategic Plan 2014-15' report which is considered elsewhere on this agenda. These resources could be applied towards the purchase of the hospital site if this is the preferred option. It should be noted however that the development costs are not provided for nor has financing been identified. This would be subject to a further Council decision.

4.7 **Commercial Road Site**

4.7.1 The Commercial Road option is that the site of the current council owned depot is developed as a civic centre. Again, the consolidated town hall will be supplemented by a renovated John Onslow House building to meet the council's medium term office needs.

4.7.2 The Commercial Road site is currently the location for the council's parking service and incorporates a car pound. Alternative arrangements will need to be made for the future provision of this service, and for the purposes of financial modelling (see below) a cost of relocation has been assumed. This will need to be verified.

4.7.3 As outlined in paragraph 4.6.4, in order to undertake a full comparison between the two sites, an assessment of the wider economic benefits of relocation to the Commercial Road site should be undertaken.

4.7.4 As stated in paragraph 4.6.5, on a like-for-like basis, funding provision up to the limit set out in the Medium Term Financial Plan report exists for land assembly purposes, but not for the development costs which would require a further Council decision.

4.8 **Financial Modelling and Outline Business Case**

4.8.1 The council has appointed an external property management company advisor, GVA, to undertake financial modelling to inform an outline business case assessing options for the relocation of the civic centre. The assessment compared the capital and running costs of each option together with a high level net present value calculation, calculated over a 30 year period.

4.8.2 The assessment has been based on historic information held by the council in relation to annual running costs of its existing premises, but the major construction and capital costs of the proposed new buildings have been assessed by GVA.

4.8.3 The options in the report have been assessed against a base position, i.e. that the council remains at Mulberry Place and is able to extend the lease beyond 2020. Some elements of capital expenditure for future refurbishment of Mulberry Place and John Onslow House would be required under this base option.

- 4.8.4 Initial financial assessment of all the options proposed show that significant savings are achievable compared to this baseline position, both on a Net Present Value as well as a total cashflow basis. However it must be stressed that the two options both involve significant capital expenditure over the years from 2014 to 2019 – in the case of the Whitechapel site the land acquisition costs would probably be paid in full in 2014, with the major capital expenditure required to construct the building being incurred from 2015-16 onwards. Expenditure on the Commercial Road site would require a similar timeframe for the building element of the project, but there are no acquisition costs.
- 4.8.5 At this stage no sensitivity analysis or detailed due diligence has been undertaken on the financial business case in order to test the viability of the options, and this work will be carried out by officers in conjunction with GVA. However, if the Whitechapel site is the preferred location, there is very limited time available to purchase the London Hospital site (paragraph 4.6.2). Provided that a suitable exit plan is put in place to cover the possibility that the scheme might not proceed, and therefore to ensure that all acquisition costs are recovered, officers consider that the initial acquisition of the Royal London Hospital site is feasible (Recommendation 2c and paragraph 1.8).
- 4.8.6 With both options, over a 30 year period significant savings could be achieved compared to the existing arrangements. However, the relocation will take a number of years to complete and it must be stressed that these savings will only begin to be realised from 2020 onwards. In the medium term costs will increase while the rationalisation takes place.
- 4.8.7 The relocation of the civic centre will require significant capital investment which would have to be financed from within the limited resources available to the capital programme. Borrowing to the levels required would have a significant impact on the council's authorised borrowing limits and operational boundary for external debt, with the consequential impact on revenue budgets of the debt charges. The indicative modelling suggests that these on-going additional revenue costs could rise from approximately £2.5 million per annum from 2014-15 to in excess of £4 million per annum from 2016-17 until the expiry of the Mulberry Place lease, with these additional 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 exceeding £4 million per annum will therefore need to be identified in addition to the on-going savings targets that have been assumed within the MTFP. In order to mitigate these costs it will be necessary to generate capital receipts from asset sales to 'cross subsidise' these costs.
- 4.8.8 At this stage the Mayor in Cabinet is being asked to express a preference for the location of a new Civic Hub. As stated in paragraphs 4.6.5 and 4.7.4, at this stage funding has only been set aside for site assembly purposes. Any decision in relation to construction and development will be subject to further Council decision based on a full assessment of the financial implications.

4.9 **Disposal of Surplus Assets**

4.9.1 As set out above, the modelling assumes that surplus council owned assets are disposed of to part fund the significant capital expenditure requirement. These assets are listed in paragraphs 1.10 and include:

Jack Dash House
Albert Jacob House

The council owns the freehold of Albert Jacob House. Jack Dash House is held on a long lease.

4.9.2 The realisation of capital receipts from the disposal of these assets – or other assets that are declared surplus to the council’s operational requirements - is essential if the relocation project is to be viable. Whichever site is proposed, the recommendations in this report request authorisation for officers to proceed with the disposal of the assets (Recommendations 2d and 3c.)

4.10 The report also requests approval to incur expenditure of up to £200,000 to implement the decisions that arise from this report. These will initially be funded from reserves although there may be scope to capitalise these costs if the scheme progresses.

5. **LEGAL COMMENTS**

5.1 The proposals outlined in the report are dependent upon purchase and sale of land. In relation to this –

- By virtue of section 120 of the Local Government Act 1972, for the purposes of any of its functions or the benefit, improvement or development of its area, the Council may acquire any land by agreement notwithstanding that the land is not required immediately for that purpose. Until it is so required the land may be used for the purpose of any of the Council’s functions.
- Pursuant to section 227 of the Town and Country Planning Act 1990 the Council has power to acquire by agreement land which it may be authorised to acquire compulsory for development and other planning purposes if it thinks that acquisition will facilitate the carrying out of development, re-development or improvement on or in relation to the land or which is required for a purpose which it is necessary to achieve in the interests of the proper planning of the area in which the land is situated.
- Under Section 123 of the Local Government Act 1972 the Council may dispose of surplus land in any manner it wishes provided that, without the Secretary of State’s consent, the disposal is for the best consideration reasonably obtainable.

5.2 The report refers to the consultation already carried out in relation to the Whitechapel Masterplan. It proposes that stakeholder consultation will be

carried out as part of developing the full business case and that there will be a further presentation to Cabinet prior to proceeding with capital works. To the extent that the proposal is targeted at achieving continuous improvement in the way in which the Council's functions are exercised, the consultation will need to comply with the requirements of section 3 of the Local Government Act 1999 and will need to inform whether the Council proceeds with the preferred option and, if so, in what form.

- 5.3 When considering its options in relation to future office accommodation, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't. Information is set out in the One Tower Hamlets section of the report relevant to these considerations. Further consultation with stakeholders as referred to in paragraph 5.2 should take into account the

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1. Sites that are released from the review will raise capital receipts on disposal or are subject to development, which supports all service areas to deliver on the Community Plan objectives, as reflected in the Strategic Plan.
- 6.2. 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. A 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.
- 6.3. When compared to Mulberry Place, the central location, transport links, and design of a purpose-built civic centre in either Whitechapel or Commercial Road will increase the openness and approachability of the civic centre, encouraging participation and engagement in the democratic process. 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.

7. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 7.1 The council will need to agree the sustainability targets for a new civic centre development which should allow for significant reductions in carbon emissions and energy costs compared to the existing rented accommodation.

8. RISK MANAGEMENT IMPLICATIONS

- 8.1. The project currently operates a high level risk strategy that reviews the overall risks to the council in relation to all options contained within the project review/outline business case. Once the preferred option has been adopted a more detailed risk register will be maintained in order to monitor and manage risk through the life of the project specific to the route taken.

9. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 9.1 There are no immediate crime and disorder reduction implications arising from this report. However, the improvements to public realm associated with a new civic centre development will contribute to the reduction of crime and disorder.

10. EFFICIENCY STATEMENT

- 10.1 In the current climate and Government drive to reduce costs and make efficiencies the council decision to radically rethink its accommodation and operations is very much in line with other councils that are currently or recently have, developed their own civic centres to rationalise and improve efficiencies in operation and operational costs.
- 10.2 By developing its own hub the council additionally takes control of future costs and insulates itself from the vagaries of the market and third party landlords. This also creates future flexibility by creating a new and currently not valued asset. The subsequent disposal of sites also reduces ongoing cost to the council and creates opportunity for additional housing in the borough

Linked Reports, Appendices and Background Documents

Linked Report

- EXEMPT – Asset Rationalisation Review (Depots and Town Hall) – 13th February Cabinet 2013

Appendices

- None

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

- None

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