


Cabinet 3 November 2015	 TOWER HAMLETS
Report of: Aman Dalvi, Corporate Director, Development & Renewal	Classification: Partially exempt
Civic Centre Project	

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

Executive Summary

This report sets out a way forward on the delivery of a new civic centre for Tower Hamlets.

On 28th July 2015, the Mayor in Cabinet agreed that the previous decision, taken by Cabinet in April 2015, be withdrawn and that a new report be presented to Cabinet at the earliest opportunity.

The Mayor also tasked officers with carrying out additional feasibility studies and financial modelling. The results of those exercises, together with feedback from cross party Member consultation meetings are set out below and inform the recommendations in this report.

Recommendations:

The Mayor in Cabinet is recommended to:

- 1 Agree that the former Royal London Hospital site in Whitechapel is the preferred site location for a new civic centre;
- 2 Agree to retain and refurbish John Onslow House;
- 3 Agree to ring-fence the disposal receipts from Jack Dash House, LEB, Commercial Road, Albert Jacob House, Southern Grove, and Cheviot House to finance the new civic centre;
- 4 Note that officers will be bringing forward reports on the disposal of the above

sites at the appropriate time;

- 5 Agree to the procurement of a multi-disciplinary design team to progress design development to detailed planning level (RIBA Stage 3) for both the former Royal London Hospital site and John Onslow House;
- 6 Agree to the scoping and procurement of site surveys (as required) for both the former Royal London Hospital site and John Onslow House;
- 7 Agree to engage legal and financial support as deemed necessary by officers, and as agreed by the Project Board, to support existing in-house capacity and expertise in developing a procurement strategy and tender documentation;
- 8 Agree to investigate the financial viability of delivering a mixed-use scheme at LEB, including the provision of a One Stop Shop and/or Idea Store;
- 9 Endorse the development of a full business case in order to confirm a capital estimate and programme for the project;
- 10 Approve the funding for recommendation 5, adopting a capital estimate with a budget cap of £3.35m – representing 35% of budgeted professional fees (up to RIBA Stage 3) for both the former Royal London Hospital site and John Onslow House capital projects; and
- 11 Authorise the Corporate Director, Development and Renewal, after consultation with the Director of Law, Probity and Governance (or their nominee) to agree and enter into the terms and conditions of any agreements required to implement recommendations 2, 5, 6, 7 and 8 following compliant procurement exercises.

1 REASONS FOR THE DECISIONS

- 1.1 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, has submitted a planning application for the redevelopment of the estate as a residential led scheme. It is understood that the application faces a number of significant challenges as it currently stands.
- 1.2 It should be noted that in recent months the council has been advised that the landlord is seeking to sell the site and the new owners may wish to continue operating the site as commercial office space, rather than pursuing a residential-led development. It is understood that contracts have been exchanged with a consortium including LaSalle Investments. This may allow the council to extend the lease but for reasons set out in section 2, this is not recommended.
- 1.3 By consolidating its operation on to a new civic centre, the council reduces the use of disparate and poorly-sited buildings, leading to reductions in inefficiencies and costs of operation.
- 1.4 A further justification for the consolidation of council administrative buildings onto a consolidated site is it allows the disposal of a number of sites for the capital receipts to cross fund the new development. All these disposals would then deliver affordable housing when bought forward as planning-compliant housing schemes.

2 ALTERNATIVE OPTIONS

- 2.1 There are two main alternative options available to the council

Remain In Mulberry Place

- 2.2 This alternative option is predicated on two factors that are out of the council's control: the sale of the East India Dock site by the current landlord, and the new landlord wishing to retain it as a commercial office space, rather than redeveloping it as a housing-led development.
- 2.3 If those two factors are realised, the council may be able to negotiate a new 25-year lease with the new landlord. This will require a £12.7m refurbishment package of Mulberry Place, Albert Jacob House and John Onslow House. This would also require the temporary decant of staff from Mulberry Place into Anchorage House (or other suitable space) for a period of up to 18 months. Jack Dash House would not require significant capital expenditure.
- 2.4 However, this would fail to satisfy a number of the project's objectives: the

proposal would not increase the efficiency of the council's operation due to the number of sites that would be in use; it would not deliver year-on-year operational savings and would not deliver a civic centre in the heart of the borough. The delivery of housing (including affordable housing) will be reduced.

2.5 More detail is set out in paragraph 3.15 below.

LEB and Commercial Road New Build Option

2.6 Officers have carried out additional feasibility of both the Commercial Road site and the LEB site. Notwithstanding the retention of John Onslow House in all scenarios, a new-build option at either Commercial Road or the LEB site would not deliver sufficient workspace area based on the project assumptions. However, the delivery of two new-build schemes, on both sites, alongside the retention of John Onslow House, could deliver sufficient workspace to satisfy the project assumptions.

2.7 This option would require the delivery of a 5-storey new-build at LEB (£32.75m) and a 5-storey new-build at Commercial Road (£55m), at a cost of £87.75m. John Onslow House would be refurbished at a cost of £2.8m and the remaining surplus properties would be disposed of for housing development. This option is not recommended following a value for money options appraisal.

2.8 More information is contained in paragraphs 3.16 onwards.

3 DETAILS OF REPORT

3.1 In response to the Government's 2010 Comprehensive Spending Review, the Council reviewed its operational cost base and decided to consolidate its operations on to a more efficient footprint¹. Following this reorganisation, and recognising that the Council's lease in Mulberry Place was due to expire in 2020, officers were requested to investigate a permanent solution to the council's office requirements. The project's objectives were to:

- Deliver year on year operational savings,
- Produce efficient council operations,
- Reduce the revenue cost of holding redundant buildings,
- Provide a civic centre in the geographic heart of the borough, and
- Deliver significant housing.

¹ By giving up its lease in Anchorage House, relocating staff in to Albert Jacob and John Onslow House, and optimizing its space planning in Mulberry Place.

- 3.2 This was first reported to Cabinet on 13 February 2013², with subsequent updates and approvals reported and gained at Cabinet meetings on 5 February 2014³, and 8 April 2015⁴. The Overview and Scrutiny committee subsequently called in the 8 April 2015 Cabinet decision for review; the progression of this call in was then put on hold following the decision of the High Court on 23 April 2015 to void the 2014 Mayoral election result. Following the briefing of the new Executive Mayor following his appointment on 12 June 2015, and a meeting of Cabinet in July⁵, it was decided to review the project's history and recommendations, pending a report being taken back to Members.
- 3.3 Following Mayoral review sessions during July, Executive feedback was received on 3 August 15. The project team has since commissioned additional technical and financial feasibility and due diligence work in order to respond to comments received⁶. The outcomes of this latest work have been fed in to an updated project options analysis and discussed with Members in a series of consultation briefings throughout week commencing 12 October 2015.

Project Assumptions

- 3.4 Local Presence. In anticipation of a formal strategic review of the Idea Stores and One Stop Shop Strategy, the project team has considered the current macro level footprint of local service delivery across the borough via Libraries/Idea Stores and One Stop Shops.
- 3.5 As part of this broader service delivery review, it is recognised that there is an ongoing debate in relation to the need for an enhanced local presence in the Bethnal Green and Isle of Dogs area of the borough. This interface is considered in the final section of this report following an analysis of the updated options appraisal.
- 3.6 For the purpose of the civic centre project, all options assume the retention of all existing One Stop Shop and Libraries/Idea Stores.
- 3.7 Staffing and Space Standard Assumptions. The following space standard and staffing assumptions have been made across all options:
- a. The requirement to support 2,472 staff – representing a 15% reduction in headcount from current levels⁷,

² Agreement to progress a detailed viability assessment, with the preferred option being to build a new Town Hall on Commercial Road as part of a mixed-use development.

³ Confirmed old Royal London Hospital (RLH) site as preferred option, authorised the purchase for this purpose, agreed commencement of design and procurement work, and agreed to the production of a final business case.

⁴ Agreed a packaged procurement via OJEU of the Civic Centre build, with the disposal of council assets for housing development.

⁵ Cabinet endorsed this project review in response to the Call in report at a meeting on 8 July 2015.

⁶ Financial Modeling; Option feasibility development work (LEB and Commercial Road new builds); and cost planning (LEB; Commercial Road; John Onslow; RLH). Budget cost of £30.5k.

⁷ Based on a headcount of 2,908 (as per previous Business Case).

b. Space planning assumptions:

- 6 workstations for every 10 members of staff,
- 20% of workstations fixed, and 80% agile, and
- 10m² of space for each workstation (including storage allowance for Agile working).

3.8 The only change from the previous business case is the increase of the workstation allocation from 8.5m² to 10m². This reflects concerns that the space standards previously set were overly aggressive. This planning assumption now aligns with the current space standards in operation at Mulberry Place. This also enables a prudent estimate of workstation capacity given the early stage of the design development. This allows a margin of contingency as detailed design develops, and non-workspace areas are confirmed and planned, e.g. team adjacencies, provision of Executive offices etc.

Option Appraisal - Updates

3.9 Previous Options Appraisal. The previous business case reported on three headline options:

- a. Base Case. Remain in 4 existing office buildings (Mulberry Place, John Onslow House, Albert Jacob and Jack Dash),
- b. Commercial Road. New Civic Centre at Commercial Road and refurbish John Onslow House and Albert Jacob, and
- c. Whitechapel Royal London Hospital (RLH). Consolidated Civic Centre, with the disposal of all other operational sites.

3.10 These headline options were backed up by the consideration of a number of accommodation scenarios under each heading. As part of this detailed analysis, feasibility work confirmed that the Council was not able to deliver the amount of space required to rehouse Mulberry Place through the refurbishment of its existing estate alone⁸. New build development of these existing assets was not considered as part of the original business case.

3.11 Updated Options Appraisal. The following due diligence has been carried out on the original financial model and fed in to the latest options appraisal:

- Due diligence on the viability of the Commercial Road option⁹,
- Due Diligence on Capital Costs for each option,
- Due Diligence on Operational Costs for each option,

⁸ Due to LEB, Southern Grove, and Cheviot House being constrained in the nature of their refurbishment due to the need to comply with current building regulations.

⁹ Due to planning concerns over the massing proposed and the development constraints of the surrounding Conservation Area

- Programme timeline and decant review for each option, and
 - Market assessment of cost of acquiring a new lease¹⁰.
- 3.12 On the latter, the project team has engaged a property consultant to assess the office market in the borough and surrounding area¹¹. The cost information gained from this exercise has been used to update the rental assumptions which would be applicable on a new long term lease in Mulberry Place. The latest financial model has updated the Base Case to reflect this latest position¹².
- 3.13 In addition to the above, the Executive Mayor requested that the following options be considered:
- a. LEB - A new build option at LEB. This responds to the constraints of refurbishing this property and bolsters a local presence in the Bethnal Green area of the borough,
 - b. John Onslow House - The upgrade and retention of John Onslow House in all options. This retains and enhances the existing local presence in the Bow area of the borough, co-located with the Idea Store and One Stop Shop, and
 - c. Disposal – The disposal of Cheviot House and Southern Grove in all options. This is the subject of a separate report on the agenda.

Options Appraisal - Overview

- 3.14 Option Description Overview. The following consolidated options have been considered as part of this updated options appraisal request:
- a. Base Case – Remain in 4 existing office buildings (Mulberry Place, John Onslow House, Albert Jacob and Jack Dash),
 - b. Commercial Road - New Civic Centre at Commercial Road and remain in John Onslow House and Albert Jacob,
 - c. LEB – New Civic Centre at LEB (and remain in John Onslow House), and
 - d. Whitechapel, Royal London Hospital (RLH) – New Civic Centre at RLH (and remain in John Onslow House).

Options Appraisal

- 3.15 Base Case. The following headline assumptions have been made for the Base Case option:

¹⁰ Either in Mulberry Place post refurbishment, or borough/surrounding areas.

¹¹ This desktop study was commissioned to inform Business Continuity Options for the Town Hall.

¹² From both a programme and cost perspective.

- The sale of East India Dock complex to a new landlord who wishes to develop and retain Mulberry Place as commercial office space¹³,
- The negotiation of a new 25 year lease in Mulberry Place with this new landlord,
- The £8m capital refurbishment of Mulberry Place prior to this new lease, requiring the temporary decant of Mulberry Place staff in to Anchorage House for a period of up to 18 months,
- The securing of a rent free period following the refurbishment of Mulberry Place,
- A new rent premium from 2020 in line with current market rates,
- The refurbishment of Albert Jacob (£1.9m) and John Onslow House (£2.8m),
- The retention of Jack Dash (with no capital refurbishment¹⁴), and
- The disposal of Cheviot House, Southern Grove, Commercial Road, and LEB for housing development.

3.16 Commercial Road. Following further feasibility work on Commercial Road by the original architect on the scheme, and consultation with Tower Hamlet's Development Design and Conservation Officer, a revised 5-storey scheme has been drawn up¹⁵. This responds to planning concerns on the massing of the scheme, and its impact on the surrounding conservation area, and provides a more in depth analysis of the number of workstations which could be delivered in the resulting scheme.

3.17 This updated scheme delivers the following:

- A Net Internal Area (NIA) of 10,196m², and
- A total net workspace area of 7,316m²¹⁶.

3.18 Using the project assumptions previously stated, this scheme could provide accommodation for 1,121 staff. This is significantly less than initial high-level estimates projected. As a result, the previously presented Commercial Road option – which provides for the required number of staff through a new build option at Commercial Road and the refurbishment of Albert Jacob and John Onslow House - is no longer viable. It would only be able to provide for a maximum of 2,285 staff.

3.19 It should be noted that whilst further due diligence has been carried out on the number of staff who could be accommodated at John Onslow House, this has

¹³ This aligns with the best information available at the date of this report on the likely outcome of the sale of EID.

¹⁴ Given its recent refurbishment.

¹⁵ This feasibility study can be provided upon request.

¹⁶ This allows for 2,880m² of non workspace area, e.g. reception and public services, café, council chamber, back of house.

not been carried out at Albert Jacob. Using the project's space planning assumptions, Albert Jacob could currently accommodate up to 404 staff¹⁷.

- 3.20 For the reasons above, the original Commercial Road option has been discounted for the purposes of the options appraisal analysis. A new build option at Commercial Road is however considered as part of the new LEB new build option (refer below).
- 3.21 LEB New Build Option. A new feasibility has been commissioned to investigate how many staff could be accommodated at LEB in a new build option¹⁸. This responds to the constraints of refurbishing this building in line with current building regulations.
- 3.22 This 5-storey scheme¹⁹ delivers the following:
- A Net Internal Area (NIA) of 6,472m², and
 - A total net workspace area of 3,592m².
- 3.23 Using the project assumptions already stated, this scheme could provide accommodation for 550 staff. A 6-storey scenario was also considered; this would be able to provide accommodation for 791 staff. Assuming the refurbishment and retention of John Onslow House as requested, this would leave a shortfall of between 991 and 1,232 staff requiring to be accommodated. The proposed storey height is a prudent approach to measure capacity if combined with John Onslow and Commercial Road. The height of LEB could certainly be pushed and initial views of the development control officers is that potentially 7-8 storeys could be delivered. However in order for LEB to deliver the necessary space without the need for Commercial Road a building of some 14 storeys would be required, which is clearly not achievable.
- 3.24 With this in mind, it has been assumed that in order to meet the project's staffing assumptions, a LEB new build option would require the retention of John Onslow House and a new build on Commercial Road (as presented in the previous option above).
- 3.25 For the purposes of the LEB options appraisal, the following has been assumed:
- A 5-storey new build at LEB (£32.75m)²⁰,
 - A 5-storey new build at Commercial Road (£55m),
 - The refurbishment and retention of John Onslow House (£2.8m), and
 - The disposal of four properties for housing development: Cheviot House, Southern Grove, Jack Dash, and Albert Jacob.

¹⁷ With a theoretical maximum of 474 staff following refurbishment.

¹⁸ This feasibility study can be provided upon request.

¹⁹ Maximum height; the design proposes a stepped design to respond to neighbouring developments.

²⁰ Further design development would be required to optimise non workspace areas across Commercial Road and LEB.

- 3.26 Whitechapel RLH Option. Previous business case work considered three options for the RLH site. These presented the following areas:
- a. Base Case – Workspace NIA of 10,290m²,
 - b. Base Case + 1 – Workspace NIA of 11,987m², and
 - c. Base Case + 2 – Workspace NIA of 13,328m².
- 3.27 Using the project's space planning assumptions, these options could accommodate the following number of staff:
- a. Base Case – 1,577 staff,
 - b. Base Case + 1 – 1,836 staff, and
 - c. Base Case + 2 – 2,042 staff.
- 3.28 With the retention of John Onslow House in mind (690 staff), the Base Case + 1 area has been modelled in this option²¹. This option is the same option which was presented to Cabinet in April 2015.
- 3.29 For the purpose of the Whitechapel RLH options appraisal, the following has been assumed:
- The purchase of the RLH site for £9.1m,
 - A Base Case + 1 design at a capital cost of £77m,
 - The refurbishment and retention of John Onslow House (£2.8m),
 - The disposal of six properties for housing development: Cheviot House, Southern Grove, LEB, Commercial Road, Jack Dash House, and Albert Jacob.

Option Analysis - Conclusions

- 3.30 From the analysis of the above options, and as set out in the exempt Appendix A, the Whitechapel RLH option comes out as the preferred option over the Base Case or new build LEB option.
- 3.31 The option scored top on the following assessments:
- Disposal Receipts – The greatest disposal value released (£39m),
 - Cumulative Savings Delivered - £91m cumulative revenue savings by 2040 compared to the Mulberry Place Base Case, with revenue savings delivered from 2025²²,
 - Housing Delivered – 704 housing units delivered, 1.5 times more than the next best option, and

²¹ Feasibility as previously presented to Cabinet, and available on request.

²² Two years prior to the LEB new build option breaks even.

- Net Present Value (NPV) – The lowest NPV of the three options, at £161.6m.

3.32 The option scored second on all other assessments, with the following being of note:

- Initial Capital Cost – The initial capital cost of the option was marginally cheaper than the new build LEB option (with the Base Case delivering the lowest capital outlay),
- Operational Costs – The operational costs for the option are 64% less than the Base Case, and only marginally more (£0.13m) than the new build LEB option²³, and
- Net Borrowing – the Net Borrowing for the RLH option was over £20m less than for the new build LEB option (with the Base Case delivering a net surplus of £6.19m due to the disposal of surplus assets).

Local Presence Considerations

3.33 Following on from the analysis of the options, and consideration of a LEB new build option, this report does not recommend the location of a new civic centre at LEB. Notwithstanding this, it is recognised that the existing local presence in the Bethnal Green area could be enhanced via the development/re-focus of one or more of the following locations:

- a. Bethnal Green One Stop Shop (Rushmead),
- b. Bethnal Green Library²⁴, and/or
- c. LEB (via the provision of a new Ideas Store and One Stop Shop as part of a mixed use development).

3.34 None of the options presented for the Civic Centre proposed a development in the Isle of Dogs area of the borough. In order to enhance the local presence of the council in the Isle of Dogs area, it is recognised that the following existing and/or new developments could/are being explored:

- a. Cubitt Town Library,
- b. Wood Wharf Development,
- c. Asda site, and/or
- d. Jack Dash²⁵.

Next Steps

3.35 Following on from the options appraisal above, and in order to develop a full business case (including a capital estimate, procurement route, and

²³ Note that due diligence on the operational costs for all new build options are currently under review.

²⁴ This could be developed to include broader community facilities/rental space.

²⁵ Note that this would have a detrimental impact on the affordability of either of the new build options for the Civic Centre.

programme), officers require the support of a multi-disciplinary design team and, if required, external legal and/or financial support.

- 3.36 In line with design development assumptions, the cost of working up designs to RIBA Stage 3 is 35% of the total professional fees on a project (assumed at 12% of the capital cost). This equates to £3.35m across the old Royal London Hospital and John Onslow House.
- 3.37 Without this concerted design development and pre-procurement work, the project will not be able to present greater certainty on cost, timeline, and affordability. This will also signal the beginning of broader stakeholder engagement across the council to inform design proposals.
- 3.38 As part of this phase, the project team will consider the best procurement route for the project; this will reconsider all options available prior to presenting as an update report for Member endorsement.

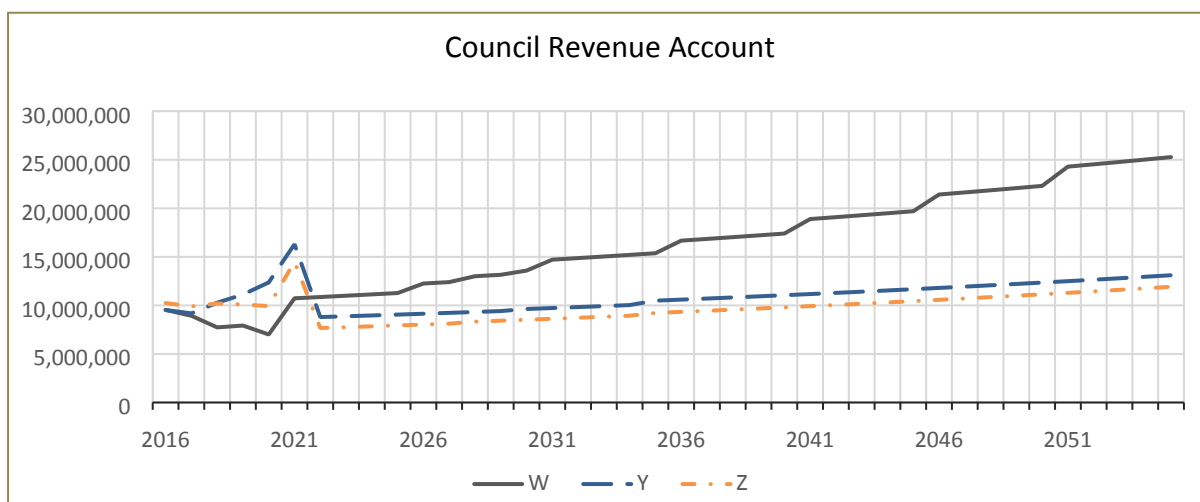
4 COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 Following the decision of the Mayor in Cabinet on 28 July 2015 this report provides an update on the further feasibility studies and financial modelling that has been undertaken on the possible location of a new civic centre for the Council. It recommends the adoption of the Royal London Hospital site as the preferred location along with the retention of John Onslow House, and seeks approval to undertake initial preparatory works prior to the capital redevelopment of those sites.
- 4.2 The council pays approximately £5 million per annum in lease and service charges for the Mulberry Place building, with the lease on the building expiring in June 2020. It is therefore necessary that long-term arrangements for a civic centre are put in place now in order to generate long-term savings.
- 4.3 As outlined in previous reports, the council has commissioned an external property management company advisor, GVA, to undertake financial modelling to inform the assessment of the various options for the relocation of the civic centre. The assessment compares the capital and running costs of each option together with a high-level net present value calculation, calculated over a 40-year borrowing period in accordance with standard practices adopted by the Council for the financing of projects of this nature.
- 4.4 Following the completion of the assessment, this report considers three main options:
- Option W - Extend the Lease on Mulberry Place,
 - Option Y – Develop new buildings at Commercial Road and the LEB Building, or
 - Option Z - The development of a new civic centre on the former Royal London Hospital site in Whitechapel.

- 4.5 Although officers originally considered that the lease on Mulberry Place is unlikely to be extended beyond the expiry date, there might be an opportunity to do so, although the factors affecting this are outside of the Council's control – see paragraphs 2.2 and 2.3. It should be noted however that any extended lease is likely to be at a significantly higher rental cost.
- 4.6 The financial modelling that has been undertaken assumes that surplus council owned assets are disposed of in order to part fund the significant capital expenditure requirement. The surplus assets vary between the three options as follows:
- Option W – assumes the disposal of Cheviot House, Southern Grove, Commercial Road and LEB,
 - Option Y – assumes the disposal of Cheviot House, Southern Grove, Jack Dash House and Albert Jacob House, or
 - Option Z – assumes the disposal of Cheviot House, Southern Grove, Commercial Road, LEB, Jack Dash House and Albert Jacob House.
- 4.7 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 rest with the Council.
- 4.8 A report elsewhere on the November Cabinet agenda seeks approval for the disposal of Cheviot House and Southern Grove. All three options assume that these two sites will be disposed of with the receipts being earmarked towards the financing of the capital costs of a new civic centre.
- 4.9 As already stated, the modelling assumes that the capital costs are financed through a combination of borrowing and the application of capital receipts generated from the sale of surplus assets. As a result the Council will incur loan charges based on the amount of borrowing incurred – the model assumes an interest rate of 3.5% with a Minimum Revenue Provision of 2.5% per annum. Borrowing costs will be reduced if alternative sources of finance are identified and applied, with each £1 million reduction in borrowing resulting in an annual revenue saving of £60,000. An assessment will need to be made as part of the approval of the scheme financing as to whether reserves and balances that the Council holds are applied to fund the new Civic Centre in order to reduce the borrowing costs. This will need to be reviewed in line with the assumptions contained within the Council's Medium Term Financial Plan. However, decisions on financing do not alter the outcome of the financial options assessment.
- 4.10 It should be noted that the income from the sale of each surplus building has been assumed as being generated during a specific financial year. If the sales are delayed, the Council will incur additional costs through the need to

forward fund the capital costs in advance of the disposal proceeds being received.

- 4.11 Financial assessment of the options proposed showed that significant savings are achievable, on a Net Present Value as well as a total cashflow basis. A summary of the outputs from the financial model is included in the exempt Appendix A, presented under Part II of this agenda.
- 4.12 Significant capital costs are incurred under both options Y (Commercial Road and LEB) and Z (Whitechapel – RLH) due to the need to construct the new buildings. These in turn may therefore lead to significant borrowing requirements, which are offset by the assumed capital receipts that will accrue from disposals. The costs of servicing the borrowing (i.e. the interest and principal repayments) will be a revenue cost.
- 4.13 Under the Mulberry Place option (W) the capital costs are much lower, with the income from the assumed disposals anticipated to fully fund the required costs, and generate additional resources. However overall the revenue costs will be significantly higher due to the annual rental charges that the Council will pay. This leads to the significantly higher Net Present Value that results over the 40-year period.
- 4.14 The graph below shows the net annual revenue costs of the three options over the period.



- 4.15 Interest costs that have been included in the model are based on a straight-line assessment of the borrowing required. The model also incorporates the principal charges via the annual Minimum Revenue Provision. The MRP will ultimately reduce the net interest charges, leading to further savings on the costs of the two new building options (Y and Z) incorporated in the graph above.
- 4.16 Over a 40-year period significant savings could be achieved compared to the existing arrangements. However, the relocation will take a number of years to complete, with alternative options all requiring significant capital expenditure

over the years from 2016 to 2019. Savings are assumed to begin realisation from 2025 onwards. Revenue costs will rise significantly until the projected expiry of the extended 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. The graph above indicates significant additional up-front costs associated with the LEB/ Commercial Rd option. It is anticipated that between £7 million and £11 million of initial budget growth will be required over the period from 2016/17 to 2021/22, if either of the two development options are approved. These will be factored in to the 2016/17 budget process and the updated MTFP to 2019/20.

- 4.17 As part of the budget process for 2014-15, funding of £12 million was set aside as a provision for the development of the new Civic Centre. Following the acquisition of the former Royal London Hospital site in January 2015, the Mayor in Cabinet agreed that the then uncommitted sum of approximately £2,500,000 be used to develop options to RIBA Stage 2 level. The capital estimate for this was rescinded as part of the July 2015 Cabinet decision. It is now proposed that a capital estimate of £3.35 million is adopted to develop the proposals to RIBA Stage 3. If approved the existing earmarked funding of £2.5 million will be applied, with the residual budget of £850,000 being financed from reserves. Should development not take place, all costs incurred to date will be deemed to be abortive and fall as a charge to revenue.
- 4.18 On completion of the design to RIBA Stage 3 status, the Council will be in a position of being able to invite bidders to bid against a known baseline against which they can be measured. This will enable the Council to 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.
- 4.19 At that stage further reports 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.
- 4.20 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. If an alternative location is preferred, further studies and assessments will need to be carried out.

- 4.21 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.
- 4.22 All options will deliver significant levels of additional housing units on the surplus sites, including a minimum of 35% affordable housing provision. Under the current New Homes Bonus arrangements the new supply will generate additional funds for the Council. Indicative levels of New Homes Bonus based on an assumed rate of £1,500 per property for each of the six years of entitlement are as shown in the table below.

Option	Number of Housing Units	New Homes Bonus Entitlement	
		Annual £'000	Six Years £'000
W Mulberry Place	475	713	4,275
Y Commercial Road / LEB	398	597	3,582
Z Whitechapel RLH	704	1,056	6,336

- 4.23 It must be stressed that the Government has only confirmed the continuation of the New Homes Bonus funding regime up to the current financial year (2015/16). The Government is due to conclude the 2015 Spending Review at the end of November 2015, so more certainty should be available then, however, any receipts under the New Homes Bonus will begin to be generated from 2018/19, which is outside the period covered by the 2015 Spending Review. No reliance should therefore be placed on this income source in relation to the funding of the project, however it should be noted that if funding is ultimately received it could be used to replenish the resources that have been utilised to fund the additional revenue costs incurred prior to the expiry of the lease on Mulberry Place.

5 LEGAL COMMENTS

- 5.1 The report seeks agreement as to the preferred site location for a new civic centre and agreement for the commencement of the enabling works and services.
- 5.2 Procurement
- 5.2.1 In order to facilitate the proposals, there is need to procure a number of works and services packages.
- 5.2.2 The Council has an obligation as a best value authority under section 3 of the Local Government Act 1999 to secure continuous improvement in the way in

which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness (the best value duty). One way in which the Council seeks to fulfil this duty is by complying with its procurement procedures. The general principle is that the Council achieves best value by subjecting spend to competition and choosing the winning bidder by applying evaluation criteria showing the best and appropriate mix of price and quality.

5.2.3 To the extent that works and/or services which exceed the OJEU threshold of £4,322,012 (works) and £172,514 (services) are required, the Council is required to conduct a procurement exercise in accordance with the Public Contracts Regulations 2015.

5.2.4 The Council may decide to procure by using a suitable framework agreement. In order to do this, the framework itself must have been procured in compliance with European Law and the following requirements should be satisfied:

- (i) The Council should be immediately identifiable in the relevant OJEU advert as a potential user of the framework;
- (ii) The OJEU advert should include the types of works/services which the Council requires; and
- (iii) The estimated value of the overall framework should have sufficient capacity to include the full estimated cost of the works/services.

5.3 Disposals

5.3.1 It is noted that separate reports will be brought forward to seek approval to dispose of various sites which will fund the development of a new civic centre.

5.3.2 Such disposals must accord with section 123 of the Local Government Act 1972, which enables the Council to dispose of land in any manner it wishes. However, except with the Secretary of State's consent or in the case of a short tenancy, the consideration for such disposal must be the best that can be reasonably obtained.

5.3.3 To effect the disposals, the Council must also have the consent of the Commissioners, appointed by the Secretary of State under Directions dated 17 December 2014 pursuant to section 15(5) and (6) of the Local Government Act 1999.

5.4 The Equality Duty

5.4.1 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 do not (the public sector equality duty). The level of equality analysis required is that which is proportionate to the function in question and its potential impact. This is considered further at paragraph 6.

6 ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 Consideration has been given to the potential impacts of the recommendations set out in the report on people with protected characteristics within the meaning of the Equality Act 2010. An analysis document has been appended to this report.
- 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. 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.
- 6.3 When compared to Mulberry Place, the central location, transport links, and design of the 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.
- 6.4 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.

7 BEST VALUE (BV) IMPLICATIONS

- 7.1 The Best Value duty requires the council 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.'
- 7.2 The chosen scheme will be delivered by procuring a delivery partner through a competitive tendering exercise. This will have the effect of ensuring value for money is secured.
- 7.3 In addition, consolidating the council's activities onto one site, and disposing of surplus sites will increase the efficiency of the council's estate.
- 7.4 Operating from a consolidated site will also increase the effectiveness of the council's operation as ways of working can take advantage of team adjacencies and improved inter-departmental working.

- 7.5 Residents were consulted on a civic centre on the old Royal London Hospital site as part of the consultation on the Whitechapel Vision Masterplan. If the Mayor in Cabinet is minded to select one of the alternative options, this will be subject to consultation with local residents.

8 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 The delivery of any new building is an opportunity to seek to improve the environmental effects of the occupiers operations.
- 8.2 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. Any new-build option offers a number of opportunities to improve the green and environmental credentials of the Council.
- 8.3 The location of the old Royal London Hospital, in the centre of a public transportation hub, offers 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.
- 8.4 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.
- 8.5 Finally a new civic centre provides the opportunity to change working practices, to reduce waste and paper resources and increase home working with more efficient systems.

9 RISK MANAGEMENT IMPLICATIONS

- 9.1 Due Diligence. The options appraisal outlined in this report has been carried out based on a feasibility level of design development. By adopting the recommendations in this report, the project team will commence the detailed phase of design development. This will enable a detailed analysis of the technical, financial, and legal business case for the preferred option prior to the submission of a full business case to Members. During this period, officers will build on consultations with Members held in October 2015, and liaise with a newly created cross-party subgroup on developments in a transparent and cross party way.
- 9.2 Strategic Risks. The following strategic level risks are included within the project's strategic risk register as updated and presented to the Project Board

and CMT since the project was called in for review in April 15. These risks have been reviewed to anticipate the move of the programme from the feasibility stage to detailed design development:

- Delay to programme requires Business Continuity Plan to be dual tracked alongside main project²⁶,
- Failure to secure timely and capable project team resource to meet programme requirements,
- A failure to agree a development disposals route results in a delay to the programme and/or a failure to secure an affordable position,
- A failure to secure an affordable capital construction cost due to delay and market heating/construction inflation throughout project's pre-procurement lifecycle.
- Failure to set out a clear workplace vision and strategy for 2020 and beyond prior to the appointment of new CEO²⁷,
- Change to old Royal London Hospital site as agreed preferred location for Civic Centre as per 5 Feb 14 Cabinet²⁸.

9.3 In addition to these strategic Project risks, the following risks should be noted:

9.4 The Council would need to go out to public consultation on any new build option other than Whitechapel RLH (which has already undergone consultation as part of the Whitechapel Vision). Should a new build option at LEB and/or Commercial Road be progressed, then this would add to the risk of programme delay and cost escalation.

9.5 In addition to the above, the following financial risks should be noted:

- Construction costs have been worked up on a square metre rate basis. These cost plans will undergo further detailed development following the completion of detailed design,
- Responses to recent market tenders suggests that construction prices are tracking ahead of BCIS rates²⁹, and
- Disposal values/housing units delivered are subject to market testing.

²⁶ In the absence of a clear position on the sale of the EID complex, the Council's negotiation time and strength risks being compromised.

²⁷ Enabling the detailed development of the Accommodation Strategy and Outsourced Service Delivery Plan (ICT and FM) during the detailed design phase of the project.

²⁸ Includes broader reputational risk and impact on Whitechapel Vision delivery.

²⁹ BCIS is forecasting a 6.5% increase in Tender Prices between 3Q 2014 and 3Q 2015, however internal cost databases are showing an actual increase in excess of 20% for 2014/15. (Potter Raper, QS)

10 CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 The proposals in this report will facilitate bringing a number of empty and/or derelict sites back into use. Such properties are at risk of squatting or criminal behaviour.

11 SAFEGUARDING IMPLICATIONS

- 11.1 There are no immediate safeguarding implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- April 2015 – New Civic Centre Whitechapel – procurement proposal and programme
- February 2014 – Mulberry Place and Proposed Civic Centre
- February 2013 – Asset Rationalisation Review (Depots and Town Hall)

Appendices

- EXEMPT: Appendix A: Options Appraisal – Analysis
- Appendix B: Equalities Checklist

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

- None

Officer contact details for documents:

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