


<b>Cabinet</b> 27 June 2017	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Corporate Director, Place	<b>Classification:</b> Unrestricted
<b>Civic Centre – End of Stage 2 Update</b>	

<b>Lead Member</b>	Mayor John Biggs Councillor David Edgar, Cabinet Member for Resources
<b>Originating Officer(s)</b>	Ann Sutcliffe, Divisional Director, Property & Major Programmes
<b>Wards affected</b>	All wards
<b>Key Decision?</b>	Yes
<b>Community Plan Theme</b>	One Tower Hamlets

### **Executive Summary**

This report provides an update to the Mayor in Cabinet on the civic centre project.

This report sets out information on the production, review and validation of the client brief, which has led to an amended scheme being proposed to that which formed the basis of the November 2015 Cabinet report and the design development works that have taken place to date. This includes the additions to the brief including a larger building, 1,500m<sup>2</sup> of publicly accessible ‘local presence’ space on the ground floor, space for partner organisations as well as the safeguarding of more of the historic elements of the building compared to what was originally proposed.

This report also sets out an update on the project costs, having taken into account the changed brief, in particular the larger building and the cost of removing asbestos in order to make the building safe for both works and subsequent occupation. Having set out the cost, the report invites the Mayor in Cabinet to adopt a capital estimate for the scheme as well as the establishment of a client contingency fund.

Information on the financial appraisal and business case is also set out in this report. In particular, the net present value calculations – a form of analysis which is used to determine whether or not a project or investment makes financial sense – are set out in this report alongside the influencing and determining factors as well as the outcome of the stress-tests that have been applied to these calculations. This assessment has demonstrated that the project, even at a higher cost for a bigger building, continues to represent good value for money for the council and its

residents.

It also sets out information in relation to the proposed soft strip and asbestos removal, the procurement strategy as well as the work to date on the proposed publicly accessible local presence on the ground floor of the new civic centre. In addition to setting out the high-level programme, the report also sets out the council's proposal in relation to communication with residents and other stakeholders as well as how they will be engaged throughout the life of the project. The report also provides assurance to the Mayor in Cabinet on the team that has been assembled to deliver this project.

This report should be considered alongside the accompanying exempt report of the same title, which sets out information on the project costs, the financial appraisal and business case, disposals, and business continuity.

### **Recommendations:**

The Mayor in Cabinet is recommended to:

1. note the design development work to date (section 6) and the proposal for a different scheme to that which formed the basis of the November 2015 Cabinet report (section 5);
2. note the cost update (section 7);
3. adopt a capital estimate of £105 million for the construction and related costs associated with the building of the new civic centre;
4. authorise the Divisional Director, Property & Major Programmes, to negotiate and agree a revised fee for the architect-led multi-disciplinary design team up to the end of RIBA Stage 3 (Developed design), subject to the agreed fee representing no more than 4% of the core construction cost of the project (para 7.18);
5. authorise the Divisional Director, Property & Major Programmes, to issue a Voluntary Ex Ante Transparency (VEAT) notice to the OJEU if required and to enter into any contractual documentation to implement the above decision;
6. note the updated financial appraisal and business case that sets out the positive Net Present Value on the civic centre project (section 8);
7. note the update in relation to disposals (section 9)
8. note the difference between assets that have been identified to be sold to support the funding of the civic centre project and those that will be realised solely and exclusively as a result of proceeding with the civic centre scheme (para 6.3);
9. note the improved capital receipts from assets sold to date and forecast to be achieved (para 6.8 and exempt report);

10. note that the funding available to support the development of the new civic centre from those assets identified in November 2015 for sale has, and is forecast to, grow and that the net borrowing requirement is reduced as a result;
11. confirm that funding of the civic centre can be made available from either the utilisation of cash reserves, the asset sales identified in this paper, or from borrowing (or a combination of those three funding sources) with a final decision on funding and financing to be taken prior entering into the design and build contract in 2018;
12. authorise the use of prudential borrowing to cover the gap between forecast project costs and other sources of capital including capital receipts;
13. note the update on surveys, soft strip and asbestos (section 10);
14. note the update in relation to procurement (section 11);
15. authorise the Chief Executive, as Project Sponsor, to enter into a Pre-Construction Services Agreement, and subsequently the design and build contract, on the basis of the most economically advantageous tender submitted following a compliant procurement exercise, together with any other ancillary or related contractual documentation;
16. authorise the Chief Executive to initiate an OJEU restricted procurement exercise for the design and build contractor if the outcome of the mini-competition under the Southern Construction Framework in terms of the lack of competition or inadequate bids returned is unsatisfactory (para 11.16);
17. authorise the Chief Executive to procure and appoint an Employer's Agent on the basis of the most economically advantageous tender submitted following a compliant procurement exercise, together with other ancillary or related contractual documentation;
18. note the update in relation to the proposed publicly-accessible local presence on the ground floor of the new civic centre (section 12);
19. note the update in relation to planning and listed building consent (section 13);
20. note the high-level programme (section 14)
21. note the proposal in relation to communication and engagement (section 15); and
22. note the key risks (section 23).

## **1. REASONS FOR THE DECISIONS**

- 1.1 With the impending lease expiry at Mulberry Place, the council needs accommodation for its administrative functions as well as its civic offices (Council chamber and accommodation for elected members).
- 1.2 Following the development of a series of feasibility studies, options appraisals and businesses cases, the former Royal London Hospital site was determined to be the preferred location for the council's new civic centre.
- 1.3 This was based on an analysis of the technical condition and constraints of the council's existing portfolio, the affordability of the proposal (on a net present value basis), the delivery of housing units resulting from the disposal or redevelopment of vacant (or to-be vacated sites), and the long-term revenue savings that the proposal would bring to fruition.
- 1.4 The recommendations in this report support the continued delivery of this project and seek key approvals that are required at this stage.

## **2. ALTERNATIVE OPTIONS**

- 2.1 The council could seek a further lease extension or alternative rented accommodation elsewhere in the borough. This is not recommended, as this option would provide less value for money than the redevelopment of the former Royal London Hospital site.
- 2.2 The council could pursue the development of an alternative council-owned site. However, an exhaustive review and analysis was carried out in the run up to the November 2015 Cabinet report that determined that there were no other suitable council-owned sites that could accommodate the council's needs.

## **3. BACKGROUND**

- 3.1 In 2012, in response to the savings required under the Coalition Government's 2010 Comprehensive Spending Review, the council reviewed its operational cost base, and decided to consolidate its operations in to a smaller, more efficient footprint. This involved giving up a lease on accommodation within Anchorage House, the relocation of some teams to John Onslow House and Albert Jacob House, and the remodelling of Mulberry Place in order to maximise its use.

- 3.2 Following this asset rationalisation, and recognising that the lease on the Mulberry Place building was due to expire in June 2020, officers were requested to investigate a permanent solution to the council's office requirements.
- 3.3 A project was established with five project objectives:
- Deliver year-on-year operational savings;
  - Provide 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 new housing.
- 3.4 In the meantime, the then-landlord of Mulberry Place had submitted a planning application to redevelop the East India Dock complex for residential use. Since then, the complex has been sold and the new owners are rolling out plans for an upgrade of the estate with continued office/commercial use for the foreseeable future. This is addressed in more detail in the business continuity section in the exempt report.

#### **4. NOVEMBER 2015 CABINET DECISION**

- 4.1 Since the project's inception in 2012, a series of feasibility studies, options appraisals, and business cases were developed and reports considered by CMT and Cabinet. The most recent of these was a report considered by the Mayor in Cabinet in November 2015. This looked at four potential re-provision options:
- Refurbishment of existing buildings (including new lease option);
  - LEB-led new-build option;
  - Commercial Road-led new-build option; and
  - Whitechapel-led new-build option.
- 4.2 The project team undertook an analysis of the technical condition and constraints of the council's existing portfolio, the affordability of each option (on a net present value basis), the delivery of housing units resulting from each option, and the long-term revenue savings that each option would present.
- 4.3 Following a number of briefing sessions to the Mayor, and all the political groups on the Council, the outcome of this analysis was presented to Cabinet on 3 November 2015 and the Mayor agreed the project team's recommendations 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.

## **5. REFERENCE SCHEME**

- 5.1 The November 2015 Cabinet report was based on a high-level scheme that was developed by Ian Chalk Architects. The proposal involved the refurbishment of part of the original 1750s building (the front block) and the Grocer's Wing. The scheme proposed the removal of the south-west wing, the rear of the front block and the rear façade of the Grocer's Wing. The image below shows the areas that were to be retained.

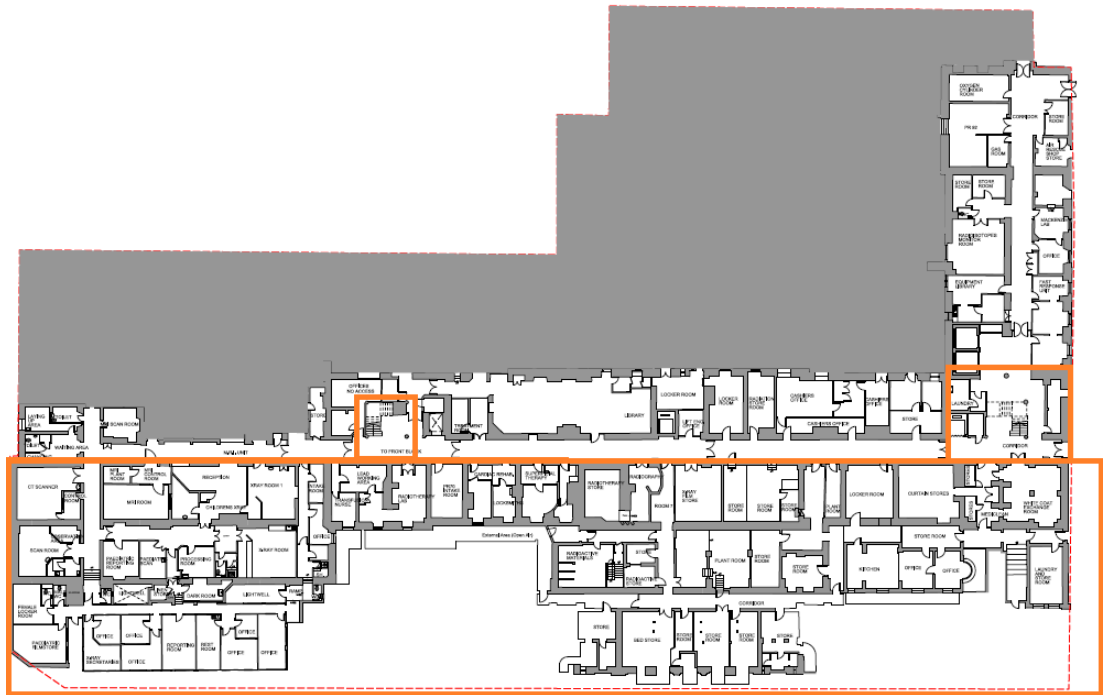


Figure 1 Historic section to be retained in reference scheme

- 5.2 The historic building would then be connected to a single block of new build to the rear of the historic building that had seven storeys (lower and upper ground, with five floors above). Other than the lower ground and some of the upper ground floor, all of the rest of the space was expected to be office space for council use with 1,212 workstations to accommodate 1,782 staff.

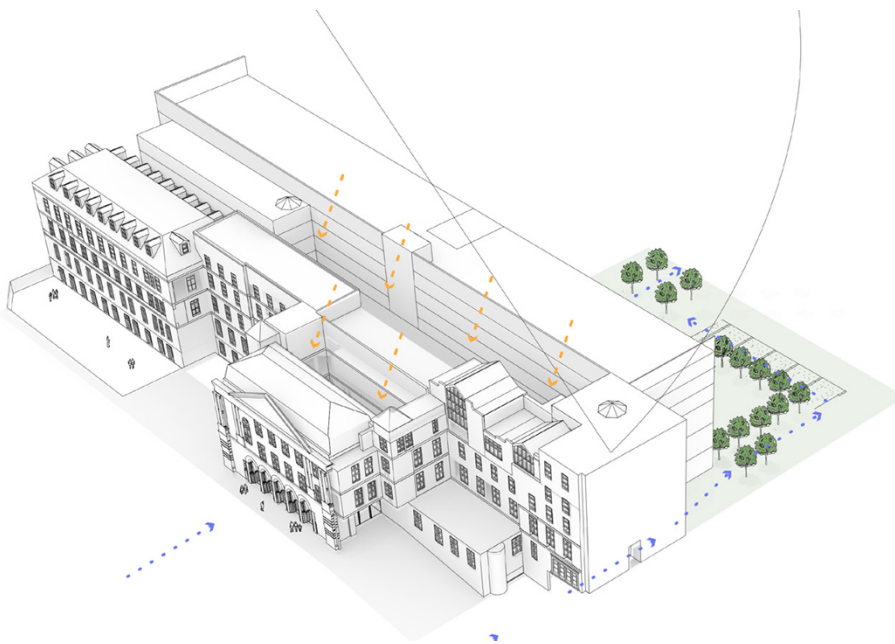


Figure 2 Reference Scheme by ICA

- 5.3 The scheme was intended to have restricted public access on the ground floor in the form of the Council chamber, a small café and limited space for customer access functions (circa 300m<sup>2</sup>). The building would thus predominantly be an administrative headquarters for the council.

## **6. DESIGN DEVELOPMENT**

### **6.1 Procurement of an architect-led multi-disciplinary design team**

- 6.1.1 Following the Cabinet decision, the project team undertook an OJEU (restricted procedure) procurement exercise and appointed an architect-led multi-disciplinary design team in April 2016 to progress the scheme to RIBA Stage 3 (developed design).

- 6.1.2 Allford Hall Monaghan Morris was appointed as the lead designer with a number of sub-consultants from a wide range of disciplines (e.g. structural engineers, quantity surveyors etc.) joining them to make up the wider design team.

### **6.2 Production of the client brief**

- 6.2.1 In order for the design team to progress with the development of the design, the council needed to provide a client brief (i.e. vision, adjacencies, and accommodation schedule) and make it available at the commencement of the design team's engagement.

- 6.2.2 The council re-engaged Ian Chalk Associates (ICA) to act as a client design advisor and undertook dual-tracked 'top down' and 'bottom up' dialogue in order to produce the brief.

- 6.2.3 A number of visioning workshops, with all members of the Corporate Leadership Team (CLT), were held in early 2016. The purpose of these workshops was to identify and capture CLT's vision and strategic direction for the new civic centre (top down dialogue). Separate meetings also took place with the Mayor, Lead Member for Resources and the Chief Executive.

- 6.2.4 At the same time, the project team (including the client design advisor) were engaging in bottom up dialogue with named leads for each council directorate. This included looking at current staffing numbers, key adjacencies (both current and desired), as well as other functions and facilities.



6.2.5 The output from the CLT workshops, the meetings with the Mayor, Chief Executive, Lead Member, and the information from the bottom up dialogue and extensive background information (e.g. existing building plans, occupancy study, organisational structure chart) allowed the client brief to be produced in April 2016 (although minor updates were made up to June 2016) and issued to the design team, in order to commence with the Stage 1 design.

### 6.3 **Additional requirements of the brief**

6.3.1 As part of the briefing process, the Corporate Leadership Team, at their visioning workshops, instructed the project team to incorporate two additional requirements into the brief:

- A significantly enhanced public and community offer in the form of a local presence space;
- Space for potential co-location with a range of partners and public sector organisations, possibly including:
  - Barts Health NHS Trust;
  - Tower Hamlets Homes;
  - Tower Hamlets Clinical Commissioning Group; and/or
  - Department for Works and Pensions/Job Centre Plus.

### 6.4 **RIBA Stage 1 (Preparation and Brief)**

6.4.1 Following production of the client brief, the design team undertook the work necessary to produce the Stage 1 report. This involved taking the information from the client brief and other documentation and extrapolating from it, interrogating data, and carrying out their own audit of existing provision, to arrive at the overall spatial requirements and start to get an idea of how the scheme might develop.

6.4.2 The architects also undertook a number of briefing meetings with the named directorate leads and specific service areas in order to better understand the existing provision, particularly in relation to non-standard spaces (e.g. the Council chamber, Housing Options etc.).

6.4.3 The design team produced the RIBA Stage 1 report on 29 July 2016. In addition to containing the architect's assessment of/response to the client brief, it also set out the conceptual approach to the site, its existing buildings and the integration of new accommodation.

6.4.4 The proposal was to demolish the south-west wing and the Grocer's Wing but retain the 1750s building ('the front block') and chapel. A glazed atrium

would wrap around the length of the existing building and a ground floor podium would be created containing the public facing activities (Council chamber, café, local presence). Two blocks of new, efficient office accommodation would be introduced where the south-west wing and Grocer's Wing previously stood. These would be connected by an infill of office accommodation, which would also provide connections to the existing stairs in the front block. The top storey of the infill block would become a roof garden.

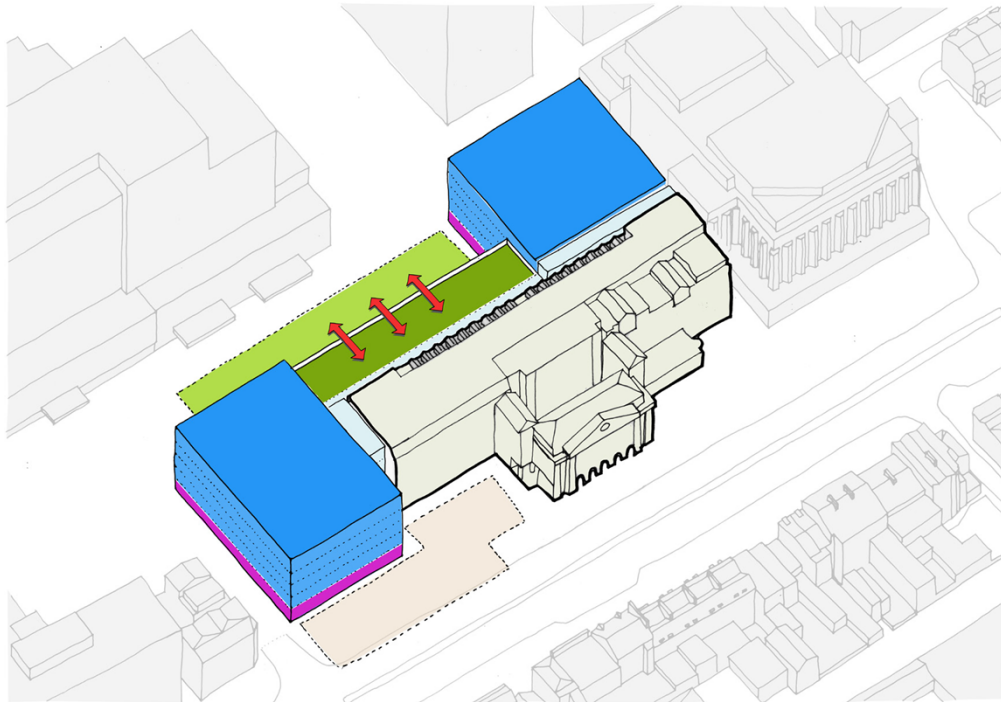


Figure 3 AHMM Stage 1 Conceptual Approach

## 6.5 Engagement with Historic England

- 6.5.1 Following the delivery of the Stage 1 report, the design team engaged in informal discussions with Historic England (HE), in order to gauge the acceptability of the proposed design in heritage terms.
- 6.5.2 The feedback from HE was that while they supported the conversion of the former hospital into a civic centre, they felt the Grocer's Wing façade provided a significant contribution to the character and setting of the London Hospital Conservation Area.
- 6.5.3 Unfortunately, they did not agree with the assessment that the demolition of the Grocer's Wing would constitute 'harm' that would be justified by the public benefit of the proposed development. Rather, HE felt that the demolition would constitute 'serious harm'.

6.5.4 They did, however, indicate that the interior of the Grocer's Wing appeared to be of low significance and this created scope for creating a new space behind a retained façade.

## 6.6 Additional massing studies

6.6.1 In the meantime the council, having received the Stage 1 presentation and the feedback from HE, engaged in extensive internal discussion primarily in relation to the massing of the scheme, in order to maximise the development capacity and hence value of the site.

6.6.2 In this regard, the project and design teams were instructed to explore the maximum height that could be considered acceptable for the rear new-build elements (both the south-west wing and a new-build element behind a now-retained Grocer's Wing) from a planning and heritage perspective.

6.6.3 The design team met with HE on 29 September 2016. They presented a scheme in which the south-west block was nine storeys high (G+8) while the Grocer's Wing and link block were six storeys (G+5) each.



Figure 4 AHMM Massing Study

6.6.4 However, HE were unsupportive of the proposed massing. They advised that the south-west block needed to be reduced by two storeys and the proposed

block behind the Grocer's Wing needed to be set further back to reduce the visual impact in relation to the historic fabric.

- 6.6.5 They advised that they considered it particularly important that, when viewing the development from Whitechapel Road, the new build elements should not protrude above all of the historic skyline of the former hospital. They also advised that the new additions should defer to the old elements of the existing building.

## 6.7 **John Onslow House**

- 6.7.1 While the council and design team considered the optimal approach to massing, further discussions also took place in relation to John Onslow House. As part of the Stage 1 report, and in the course of the design process, the design team advised the council that due to the limitations of John Onslow House, it would require significantly more work than originally envisaged in order to accommodate the required number of staff.
- 6.7.2 While the November 2015 Cabinet report suggested the reconfiguration of John Onslow House could be carried out for £2.8m, a more detailed analysis of the condition of the existing building, particularly the existing plant and machinery, determined that the likely cost would be £6.5m. This was more than double that which was originally proposed. Additionally, it was established that the occupancy of the building would be reduced from the original proposal of 469 workstations to 344, due to the inefficiencies of the existing floorplates.
- 6.7.3 Given the cost of reconfiguring John Onslow House, the project team carried out a development appraisal and determined that there was an opportunity to realise a significant additional receipt if the site was no longer needed for use as council offices. This would not necessarily arise from selling the site to a third party but rather a receipt, to the council's General Fund, based on the value of the site to the Housing Revenue Account or one of the council's housing companies.
- 6.7.4 The redevelopment of the site would include the retention and reprovision of the existing Idea Store and One Stop Shop based on the council's proposed new model for customer access (see section 12) as well as the existing doctor's surgery and dental practice in a new purpose built and designed space with improved access arrangements. The redevelopment could also provide housing, particularly affordable housing, in addition to possible commercial and/or SME/start-up use.

6.7.5 Any redevelopment would be the subject of a detailed feasibility study which would determine the optimum configuration for the site in terms of uses and mix. This would take into account any change in the levels of employment floorspace and the local economic impact of such a change. It would also be subject to a viability assessment to ensure the proposed development makes financial sense for the council.

## 6.8 **A new scheme at the former Royal London Hospital site**

6.8.1 As set out in section 6.3 (additional requirements of the brief), as part of the production of the client brief, the project team were asked to incorporate elements into the civic centre scheme that had not been present in the reference scheme (see section 5).

6.8.2 This included an increase in the volume of the building to accommodate additional workstations, the provision of space on the ground floor for a local presence, the provision of co-location space for partner organisations, the advice from Heritage England in relation to the level of intervention in the historic building they felt was acceptable, and the increased cost of reconfiguring John Onslow House.

6.8.3 These factors meant the council would be going forward with a different – and new – scheme into Stage 2 based on the revised brief and taking on board the comments from Historic England to deliver a building that reflected and celebrated the history of the site, that preserved more of the rear elevation, that preserved the Grocer’s Wing elevation whilst providing modern and flexible spaces behind it, and provided a welcoming and dynamic ground floor space as the focal point for customer interaction and democratic decision-making.

## 6.9 **Stage 2 design process**

6.9.1 Having completed the massing study and taken HE’s advice on board, the design team arrived at a conceptual approach that was signed off in January 2017, at which point the Stage 2 design process commenced.

6.9.2 The approach that was signed off consisted of a scheme in which the south-west block was seven storeys high (G+6) while the Grocer’s Wing was six storeys (G+5), albeit set back in order to limit the visual impact, from Whitechapel Road, of the new build element. They also proposed a link block between the two wings that was five storeys (G+4) with a roof terrace.

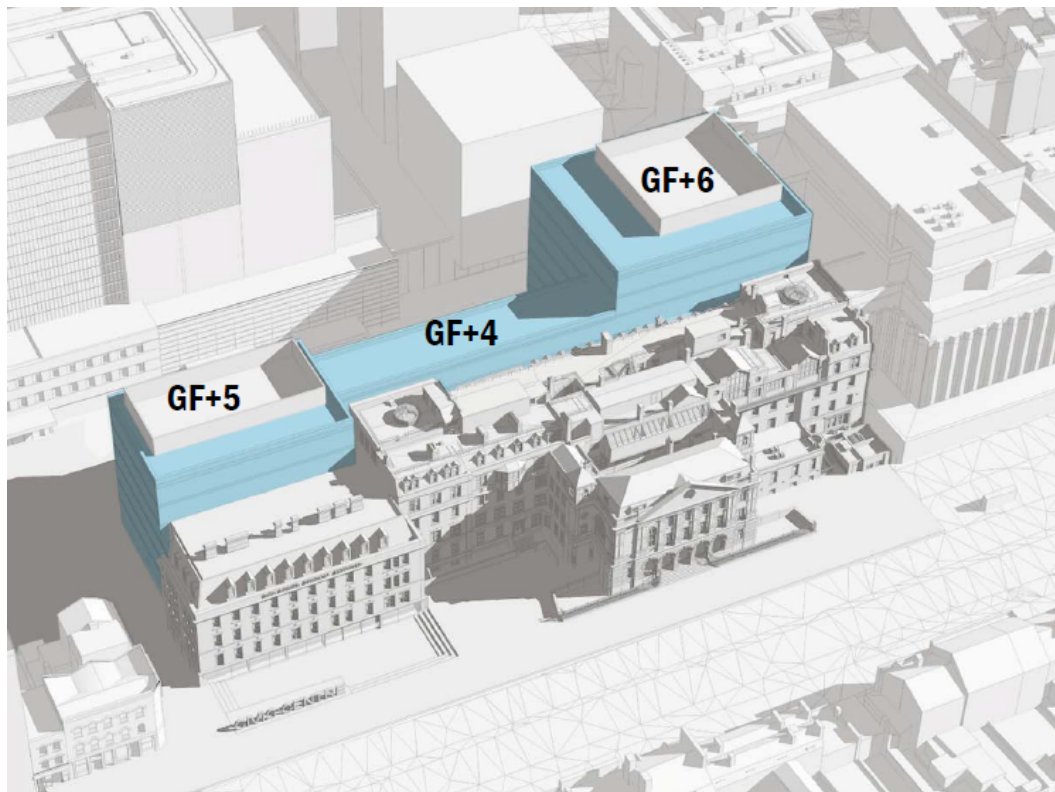


Figure 5 Stage 2 Initial Scheme

- 6.9.3 As part of the Stage 2 design process, the design team continued to meet with services across the council to better understand their spatial, operational and adjacencies requirements.
- 6.9.4 There were also further discussions about the footprint of the south-west block, looking in particular at the alignment of this block with the emerging Barts development to the south of the site as well as attempting to secure the most efficient floorplates to maximise the number of workstations, with compensatory changes to the massing to ensure the scheme continues to provide value for money.
- 6.9.5 This has resulted in an indicative scheme that has a lower Grocer's Wing and link block but a wider south-west block. Below is how this current indicative scheme looks and is the basis on which the design team are progressing with the design process.
- 6.9.6 The change in the massing of the scheme, and the introduction of a wider floorplate in the south-west block, has increased the gross internal area of the scheme from 22,893m<sup>2</sup> in the reference scheme to 26,269m<sup>2</sup> in the new scheme. This has allowed the project team to increase the number of workstations to 1,681 (from 1,212), while also reducing the area per workstation from 17.7m<sup>2</sup> to 14.7m<sup>2</sup>.

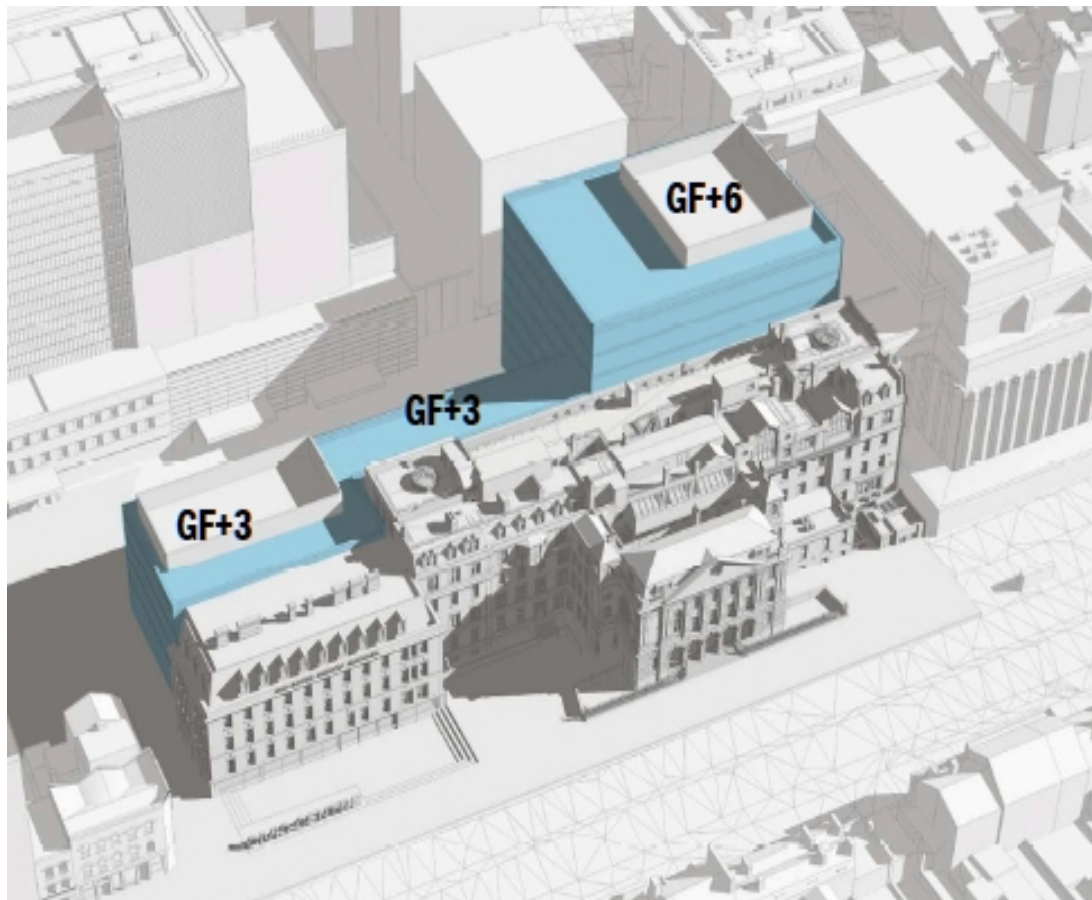


Figure 6 Current Massing

- 6.9.7 During the development of the Stage 2 design a number of critical aspects were subject to review, including:
- organisation of, and options for, the provision of the Council chamber and meeting rooms;
  - organisation of the upper floor plates – including the right balance of fixed desks and flexible working areas (with trials of the same now underway on the second floor of Mulberry Place);
  - location of lifts and service cores to provide adequate flow whilst avoiding costly and complex over provision;
  - the allocation of the cellular spaces in the older building for offices, meeting rooms and customer services;
  - the development of options for the organisation of the ground floor ‘local presence’ space and its relationship with the ‘main’ reception and customer flow routes;
  - further engagement with Historic England; and
  - development of options for the ‘setting’ of the building to ensure optimum accessibility given the level changes across the site from front to back and east to west.

- 6.9.8 The draft Stage 2 report was received by the project team on 19 May 2017 and reviewed by the team and Senior Responsible Officer. This was followed by a Stage 2 presentation to the Mayor and Chief Executive. The design team presented their Stage 2 report following a template agreed with the council which covered all of the key requirements of the Gateway review process which the project board had previously endorsed.
- 6.9.9 On the 22 May the project team issued its Gateway 1.5 assessment report and concluded that the project could pass Gateway 1.5 on a conditional basis i.e. that costs were aligned to the agreed budget. Following a further two week review period a revised Stage 2 report was issued and discussed with the project team and it was agreed that costs aligned with the brief and design intent. The size of the building also remained as per that agreed at Stage 1 with the potential – through a more efficient floor plate – for occupancies (and hence cost per workstation) to be better than that required by the brief.
- 6.9.10 The Gateway 1.5 review concluded that the following key actions be taken forward as Stage 3 design commences in June:
- A full review of non-construction costs be undertaken by the project team to ensure that all budget items are appropriately identified, owned and provided for (this has now been completed and is referred to in the section below);
  - The project programme should be further reviewed and opportunities for acceleration of the start on site be discussed with the to-be-appointed contractor and design team; and
  - The potential additional occupancy of the building should be further reviewed and confirmed to ensure that the building provides modern agile working environments and maximises the value for money for the taxpayer.

## **7. COST UPDATE**

- 7.1 When the November 2015 report was presented to the Mayor in Cabinet, it stated that the cost of the redevelopment of the Royal London Hospital site would be £77m (excluding inflation – then projected to be 12% over a three-year period, therefore £86.25m). This was based on the reference scheme produced by Ian Chalk Architects (see section 5).
- 7.2 Since that point, there have been significant changes (see sections 6.3 and 6.8) to the scheme. This includes the proposed building having a larger volume/floorspace area therefore accommodating more staff, an increase,



exceeding previous estimates, in asbestos removal costs as well as additional costs arising from heritage requirements (such as retaining the older front block in its entirety).

- 7.3 At the end of Stage 2 the construction costs of the new scheme are forecast to be £89.7m, which now incorporates inflation from November 2015 to April 2017; this figure is therefore in line with the £86m November-priced figure reported to recent Project Boards.
- 7.4 At the last Project Board in May 2017 the project cost was reported at £102.7m including construction costs above, professional fees, other project on-costs and inflation. This figure does not include direct client costs (such as the civic centre project team) whose costs will be contained within 4% of the total project costs.
- 7.5 At the completion of RIBA Stage 2, the civic centre project cost is now estimated at £104.6m which is an overall increase of £1.9m (or 2%) including inflation to the point of construction. The revised project cost estimate had been arrived at following a thorough value engineering review by the project team and a zero-based review of the allowances required for Stage 3, 4 and 5 contractor design development plus additional budgetary allowances for surveys to be undertaken in the pre-construction period to support the early de-risking strategy. At £105 million the project costs, scope and brief are considered fully aligned.
- 7.6 A further recommendation in relation to a client-held contingency is set out in the exempt report.
- 7.7 This report seeks the adoption of a capital estimate of £105m, representing the project costs as set out above.
- 7.8 The changes to the scheme means the figures above are not directly comparable to the figures that were presented in November 2015. This is because the figures in this report have taken inflation into account – this includes inflation since November 2015 as well as a projection of inflation between now and the anticipated start on site date. If the £104.6m project cost is deflated back to November 2015 prices, this equates to £95.1m. This sum, for the new scheme, is equivalent to the £77m that was reported for the old scheme.
- 7.9 The difference of £18m is accounted for by the provision of a larger building, including an increase in area as well as the provision of a much larger publicly accessible ground floor space, an increase in the estimated cost of

asbestos removal as well as the cost of retaining more of the historic front block of the former Royal London Hospital.

7.10 In assessing whether or not the council is getting value for money, in addition to the net present value calculations (see section 8), the project team have assembled a basket of performance indicators to measure the project against as well as gathering benchmarking information from a range of developments.

7.11 The following KPIs can be reported against the project costs and the current design (based on November 2015 prices):

<b>Old scheme</b>	<b>Indicator</b>	<b>New scheme</b>	<b>% +/-</b>
£77,000,000	Construction costs and overheads	£95,100,000	+24%
22,893	Area in m2	26,269	+15%
£3,363	Overall cost per m2	£3,620	+8%
1,212	No of workstations	1,681	+39%
£63,531	Cost per workstation	£56,573	-11%
17.7	Area per workstation in m2 (excluding local presence space)	14.7	-17%

7.12 As can be seen from the table above, while the overall construction cost has increased, the new scheme has a more efficient cost per workstation and a more efficient area per workstation.

7.13 In addition, the benchmarking exercise has determined that the updated project costs are at the lower end of the anticipated cost – based on the advice of the cost consultant on the design team – of similar schemes.

7.14 The industry average for the renewal of a building – described as a significant replanning of space including structural alterations – is between £150 and £250+ per sq foot. The current cost model states that the refurbishment is going to cost £248.19psf. This is within the range but at the upper end of it due to the complexities of refurbishing a listed building.

7.15 However, when looking at the new build element, having taken into account the target occupier, the location, relative size, the wall to floor ratio and facades, the number of storeys, the number of basement storeys and the procurement route, the cost consultants advised that a benchmark of £280psf should be used for the notional cost model. The comparative rate in the project's cost model is £257.70psf, significantly below the benchmark,

therefore demonstrating the efficiency of the design and the value for money of the project.

- 7.16 When the November 2015 report was considered by the Mayor in Cabinet, a budget cap of £3.35m was established for the appointment of an architect-led multi-disciplinary design team up to RIBA Stage 3.
- 7.17 The team were appointed on a fixed-fee basis (with the option of additional call-off services) in April 2016 following an OJEU procurement exercise (see, section 6.1). As is normally the case when the scope of a project changes, the project team will be revisiting the fees for the team.
- 7.18 This report seeks a delegation from the Mayor to the Divisional Director, Property & Major Programmes, to negotiate and agree the revision to the fees. To ensure the revised fees represent value for money, they will be capped to be no more than 4% of the revised construction costs set out above i.e. £3.8m.

## **8. FINANCIAL APPRAISAL & BUSINESS CASE**

- 8.1 Net Present Value (NPV) is a form of financial analysis used to determine whether it makes financial sense to proceed with a projected investment or project. Because of the time value of money, a pound earned in the future won't be worth as much as one earned in the present as you will be able to buy less with it and you will not have had the benefit of it in the intervening period (e.g. for investment or to buy something which benefits you now) and therefore an NPV appraisal applies a 'discount factor' to reduce the value of future cash flows. A reasonable set of assumptions has to be applied to any NPV assessment, which should focus on those factors that are most significant in informing a decision and for which reasonable estimates can be made of future costs and savings.
- 8.2 A positive Net Present Value indicates that the projected earnings/savings generated by a project or investment (in present pounds) exceeds the anticipated costs. Generally, an investment with a positive NPV will be a one that offers a positive return and one with a negative NPV will result in a net loss. Applying the same set of financial modelling principles of the NPV model to a variety of different options allows a decision to be made as to which option offers the best value for money for the project as a whole.
- 8.3 The Cabinet decision to approve the civic centre project in November 2015 was supported by an independent viability assessment completed by GVA

Grimley which showed a positive Net Present Value (NPV) of proceeding with the scheme.

8.4 In October 2016, given that a different scheme was now being proposed, the council procured a new appraisal in order to assess the viability of this new scheme. This appraisal took into account the increased scope (size) of the scheme, the additional assets proposed to become in-scope (John Onslow House), the potential partner income and the change in the reported capital costs at that time.

8.5 That appraisal assessed the NPV of alternatives under consideration, at that time, to vary from £4m to £20m. This paper updates Cabinet on the key changes in the factors influencing the business case of the civic centre and makes recommendations to approve the project funding and financing.

8.6 It should be noted that NPV calculations apply a variety of assumptions to the forecast capital costs, revenue costs and savings arising from the project; they should be used primarily to (a) confirm whether projects generate value for money for the taxpayer and (b) to enable alternative options to be evaluated on a like-for-like basis.

## 8.7 **Developments in Stage 2 of the design**

8.7.1 During Stage 2 the detailed design work has focused on delivering a building that meets the requirements of the brief at a cost that is affordable to the council. Costs of the scheme have been reduced by 10% compared to those reported by the design team at the end of Stage 1.

8.7.2 Section 7 explains how these revised costs vary compared to those produced at November 2015 including inflation, increased new build area, increased massing and heritage related costs which could not be reasonably forecast at the earlier concept design stage.

8.7.3 As the design team have now concluded their Stage 2 assessment and a revised capital costs and capital estimate are now respectively available and required, we have further updated the appraisal model to take account of the following factors as agreed with the council's Corporate Finance team:

- the cost of debt finance has been included at a rate of 2.75% to reflect the prevailing cost of 40 and 50 year funds from the Public Works Loan Board (PWLB) (as at May 2017) being quoted as 2.73% and 2.71% respectively;
- the HM Treasury discount rate of 3.5% has been applied to calculate the Net Present Value (NPV) of the cashflows in this model;

- the NPV modelling period has been extended out to development period + 45 years in accordance with the expected minimum life of the asset;
- a residual value of the asset is allowed for at the end of a 35-year period – for this we have used the forecast total project costs uninflated at year 35 and discounted this value back to the present day for evaluation purposes;
- savings in rental costs currently paid by Tower Hamlets Homes have been included in the model;
- a notional allowance for savings in running costs has been included in the model based on an assumption of a saving of £150,000 being generated per year (based on a reduction of 2,000m<sup>2</sup> @ £75 per m<sup>2</sup> using facilities cost benchmarks). This excludes all savings enjoyed as a result of rationalisation of other assets not directly linked to the creation of the new civic centre and as such is a significantly more prudent approach than that originally applied in November 2015; and
- two additional factors are set out in the exempt report.

## **8.8 Funding and financing options**

- 8.8.1 It should be noted that irrespective of the inclusion of asset sales values within the business model or otherwise the council retains the flexibility to determine the optimum financing solution for the project.
- 8.8.2 The proposal to rationalise the estate more widely and apply those receipts to reduce the net capital (borrowing) requirements of the new civic centre was made and approved in November 2015. This strategy combined best practice asset management with a debt-minimisation strategy.
- 8.8.3 An alternative financing strategy would see only the value of those assets sold directly to support the development and relocation of staff to the civic centre being applied to fund the development – with a larger borrowing requirement.
- 8.8.4 Finally the council could choose to retain sales funds within its reserves and borrow the costs of building the new civic centre from the Public Works Loan Board to make the most of low rates of interest. In the current climate it is worth noting that investment returns are currently also exceptionally low in any low-risk asset class however, this could change over the timeframe of programme expenditure and maintaining the flexibility to respond is an important consideration.

## 8.9 Updated disposal values

8.9.1 Section 9 sets out an update on disposals related to the project. The exempt report also sets out updated disposal values. For the purposes of the business case appraisal, where a valuation range has been provided in the exempt report, the lower number has been used.

## 8.10 Alternative scenarios

8.10.1 Five versions of the business case model have been produced in order to aid the financial appraisal of the project as follows:

- Version 1 – based on the November 2015 estimated project costs, project financed through asset sales at values identified in November 2015 and the balance from borrowing based on the asset values and costs reported at November 2015. Revenue savings based on rentals payable in November 2015 for the existing town hall.
- Version 2 – based on updated project costs, financed through asset sales as identified in November 2015 and the balance from borrowing based on current asset values and costs reported at May 2017. All revenues savings as per above.
- Version 3 – based on updated project costs, financed through asset sales as identified in November 2015 but uplifted for current values as reported at May 2017 and the balance from borrowing, with additional revenue savings identified based on the latest market intelligence.
- Version 4 – based on updated project costs, financed through asset directly linked to the strategy but uplifted for current values as reported at May 2017 and the balance from borrowing, with additional revenue savings identified based on the latest market intelligence.
- Version 5 – based on revised May 2017 costs with additional revenue savings as above but financed entirely from borrowing.

8.10.2 In versions 3 to 5, an allowance has been made for the residual value of the asset at year 35 which is discounted on a compound basis by the 3.5% discount factor. In all cases revenue savings from operating over a reduced sized footprint have not been included – this has the effect of dampening the NPVs reported below.

## 8.11 Outcomes of NPV analysis

8.11.1 The Net Present Value of the civic centre scheme in each of the scenarios above is as follows:

<b>Scenario (see para 8.10.1)</b>	<b>Modelled at 45 years</b>
V1 November 2015 business case refreshed	-£5,938,940
V2 Updated May 2017 Stage 2 business case with revised capital costs and receipts (without additional revenue savings)	£1,652,632
V3 Updated May 2017 Stage 2 business case with revised capital costs and receipts with additional revenue savings.	£111,400,390
V4 Updated May 2017 Stage 2 business case with revised capital costs and receipts included only for assets sold directly related to the new civic centre with additional revenue savings	£19,088,612
V5 Updated May 2017 Stage 2 business case with revised capital costs and no capital receipts but with additional revenue costs	£1,626,376

8.11.2 Based on the financing strategy agreed in the November 2015 report the civic centre project offers a positive NPV of some £111m based on the application of the site sales receipts approved in November 2015 plus John Onslow House being applied to fund the civic centre. It should be noted that alternative financing strategies also produce a positive NPV and demonstrate that even if the project was entirely funded from loans based on the Public Works Loans Board (PWLB) rate, the NPV would remain positive over a 45 year period.

8.11.3 We have also considered the implication of local government accounting requirements on the asset value and revenue charges that may arise as a result of the creation of the new civic centre. The council will be required to make a charge for the Minimum Revenue Provision related to the asset each year. Based on a prudent asset life of 1/60th each year (being just under £2m per year) this would result in a reduction in the NPVs of £40m over the 45-year appraisal period. However it is also appropriate in accounting policy to recognise the increase in value of the asset was required under the Existing Use Value accounting policy; based on a prudent 2% increase in asset value per annum this would result in an increase to the NPVs over the 45-year period of £60m over and above those reported above. The net impact therefore of complying with standard asset accounting policy in local

government would be to increase the NPVs for Options 3, 4 and 5 by +£20m in each case.

## 8.12 **Stress testing**

- 8.12.1 In order to test the robustness of the business case, stress-testing was carried out on the financial appraisal. The details of that testing are set out in the exempt report so as not to prejudice the council in future negotiations. However, the conclusion of that testing is set out below.
- 8.12.2 If all of the adverse stress tests (in the exempt report) were applied to Version 3 of the business case then the NPV would reduce from £111m to £64m. If two of the three favourable stress tests were applied to Version 3 then the NPV would increase from £111m to £183. The compound impact of applying both sets of scenarios would result in an NPV of £135m.
- 8.12.3 If all of the adverse stress tests above were applied to Version 4 of the business case then the NPV would reduce from £19m to -£54m. If two of the three favourable stress tests were applied to Version 4 then the NPV would increase from £19m to £91m. The compound impact of applying both sets of scenarios would result in an NPV of £18m.
- 8.12.4 It should be noted that alternative financing strategies also produce a positive NPV and demonstrate that even if the project was entirely funded from loans (version 5) the NPV would remain positive over a 45-year period.
- 8.12.5 It should be noted that the wider benefits of improving the connectivity of the council to the community it serves and of releasing council-owned sites for the development of new homes have not been factored into the NPV analysis above.
- 8.12.6 The NPV analysis continue to demonstrate that the project has a positive return to tax payers when future benefits arising from the creation of the new civic centre are discounted by 3.5% per year. The option that requires the least amount of borrowing has the highest NPV compared to the two other options.
- 8.12.7 Whilst a value of the asset has been provided in the model at year 35, by the time this is discounted, the value is reduced in the model to just £37m. In reality, it would be expected that the asset value of the new civic centre would increase in line with commercial property values in the borough. If values rose by just 2% per annum then – based on the costs of acquisition and construction – the value of the site would be some £290m in year 2063.



8.12.8 It is therefore important to use the NPV assessments above to make informed choices between options whilst recognising that the long-term benefits of converting the town hall rental cost stream into a fixed asset for the benefit of the community will deliver value and benefits over and above those captured in the updated model

## 9. **DISPOSALS**

9.1 The November 2015 Cabinet report identified a number of sites that were proposed for disposal with the receipts ring-fenced to finance the new civic centre. Notwithstanding potential alternative approaches to funding route (see section 8.8), this section provides an update on those disposals.

9.2 The options appraisal that accompanied the Cabinet report listed the following sites and potential disposal values:

Site	Disposal Value
Cheviot House	£4m
Southern Grove	EXEMPT
LEB Building	£10m
Commercial Road	EXEMPT
Albert Jacob House	EXEMPT
Jack Dash House <sup>#</sup>	EXEMPT
<b>Total</b>	<b>£39m</b>

<sup>#</sup>Not proposed for disposal in November 2015 therefore not included in the total figure.

9.3 Of those sites, only Albert Jacob House and John Onslow House are currently occupied by council administrative staff. Commercial Road also has some staff but the majority of the site is used as a car pound by the council's parking enforcement service. However, it should be noted that all the sites listed above are or were designated as, or purchased for the delivery of, council offices.

9.4 Subsequent to consideration of the November 2015 report, officers progressed the disposal of two of the sites. The sale of Cheviot House was completed in December 2016 for £14,035,000. Having exchanged contracts in February 2017, the sale of the LEB Building is due to complete in September 2017 for £30,200,000.

9.5 These receipts, significantly above the potential disposal values identified in 2015, were achieved, in part, due to the continuing boom in the London (and the borough's) residential property market but also due to the diligent and

wide-reaching marketing and sales process led by the council's Asset Management team.

- 9.6 The increased levels of receipts have allowed the project team to reassess the net borrowing requirement for the development. The team reassessed the disposal values of the remaining sites to more accurately forecast the gap between the cost of the development and the disposal receipts.
- 9.7 In addition, John Onslow House will no longer be retained for council office accommodation; this provides an additional disposal opportunity to further reduce the net borrowing requirement. This would not necessarily mean the council sells the site, but any transfer from the General Fund to the HRA or one of the council's housing companies would result in a consideration for that transfer. The receipt for that site would depend on the scheme that is delivered. More information on this is set out in section 6.7.
- 9.8 The revised disposal values, including those sales that have already completed (or are due to complete shortly), are set out below:

Site	Disposal Value	Date sold or forecast to be sold
Cheviot House	£14m*	December 2016
Southern Grove	EXEMPT <sup>1</sup>	2017/18
LEB Building	£30.2m*	September 2017
Commercial Road <sup>#</sup>	EXEMPT	2018/19
Albert Jacob House <sup>#</sup>	EXEMPT	2021/22
Jack Dash House	EXEMPT	2018/19
John Onslow House <sup>#</sup>	EXEMPT	2021/22
<b>Total</b>	<b>£78.2m – 91.2m</b>	

\*Contracts exchanged or completed

<sup>#</sup>Currently occupied (or partially occupied) by council staff

- 9.9 For the purposes of the options appraisal, where a valuation range has been provided, the lower figure has been used.
- 9.10 In recognising the increased capital receipts that have been realised from the two disposals to date, this leaves open the possibility for the council developing some of these sites out directly for the provision of homes or other uses. This would have to be based on the completion of a feasibility study and financial appraisal. Where disposals are to be taken forward, they will be the subject of a further report to the Executive at the appropriate juncture.

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<sup>1</sup> Only part of Southern Grove (the workhouses) is now being considered for disposal

## **10. SURVEYS, SOFT STRIP AND ASBESTOS**

- 10.1 Part of the November 2015 Cabinet decision in relation to the redevelopment of the old Royal London Hospital building was the approval for the project team to scope and procure site surveys as required. Carrying out these surveys, in addition to aiding the design process, also helps the council de-risk, secure cost and programme certainty. This is because the surveys allow the design and project teams to better understand the site, the buildings, the respective constraints and limitations as well as become aware of any problems earlier in the process.
- 10.2 Most of the surveys were completed in 2016 although one key survey is still in progress: the Part B Asbestos Survey. The Part A Management Survey, which has been completed, located asbestos containing materials (ACM) that could be damaged or disturbed by normal activities, by foreseeable maintenance, or by installing new equipment. It involved minor intrusion and minor asbestos disturbance to make an assessment of the ability of ACM, if disturbed, to release fibres into the air.
- 10.3 The Part B Refurbishment/Demolition survey is currently being undertaken and will locate and identify all ACM before any structural work begins at a stated location or on stated equipment at the premises. It involves destructive inspection and asbestos disturbance. The area surveyed must be vacated and certified 'fit for reoccupation' after the survey. The refurbishment/demolition survey is required in order to meet the legal requirements to allow for a planned major asbestos removal and strip out works to be undertaken.
- 10.4 In addition to removing ACMs, an additional purpose of the strip out works is also to secure elements of historical significance for either returning to Barts or reusing elsewhere in the building. The strip out will also remove the more modern layers of building that have been added in recent years when the building was a working hospital, thereby paring the building back to its original form. It also allows the council to have more certainty about the condition of the building.
- 10.5 Due to the building being listed, a listed building consent application for the strip out works will be submitted in August. The programme for the delivery of the combined works is dependent on the success of the procurement route in securing the early engagement of a contractor (section 11) and the point at which a main contractor can be deployed to deliver the removal works as part of a Pre-Construction Services Agreement (PCSA).

## **11. PROCUREMENT**

- 11.1 The procurement of the main contractor will be one of the largest contracts the council will let. The contractor will be expected to deliver the most high-profile and critical project the council has and will undertake in decades.
- 11.2 There are three main drivers that have helped determine the procurement route for this project:
- (1) Timing – the need to select a route that ensures the delivery of the project as early as possible to reduce rental costs, the risk of construction inflation and to secure the early realisation of benefits.
  - (2) Cost – the need to secure a high degree of cost certainty. In addition to requiring cost certainty in order to manage the funding of the project, it also ensures the risk of reputational damage to the council is limited.
  - (3) Quality – the need to ensure the council secures a contractor who can deliver a high-quality, flexible but suitably civic building, as one of the overriding aims of the project. This will invariably mean securing a Tier 1 contractor with a significant track record of delivering high-quality buildings, on time and to budget.
- 11.3 At the end of Stage 1, there was a presumption towards an OJEU competitive procurement with negotiation process, which would have taken place in Spring 2018 with detailed design thereafter and a contract entered into later in 2018 or early 2019. Since January the project team have been exploring the procurement route in more detail.
- 11.4 A review of all the options was initiated in February 2017, in order to ensure that all procurement routes were explored so as to secure the best outcome, based on the three drivers set out above.
- 11.5 A procurement options workshop was undertaken in March 2017 and was attended by the project team (including SRO and client advisors), the council's legal and procurement services, the project's legal advisors (Sharpe Pritchard LLP) as well as AHMM.
- 11.6 From this workshop a clear preference for a two stage appointment and the use of the JCT contract form was established to both ensure adequate and sufficient time for contractor input to de-risk the project and to allow for the most effective transfer and ownership of risk post contract award.
- 11.7 The workshop looked at a number of procurement routes to determine the ability of each of those routes to satisfy the three drivers set out above. One

of the key procurement routes under consideration, in addition to an OJEU process, was the use of a compliant framework.

- 11.8 Further clarification discussions took place in April with the project's legal advisors (Sharpe Pritchard LLP) and various framework managers in order to build a broader picture of the options, risks and opportunities inherent in the different routes.
- 11.9 A procurement presentation was delivered to the Project Board on 9 May, where there was broad consensus that either the appointment of a contractor under a framework or via an OJEU restricted tender process was the most appropriate way forward.
- 11.10 In order to ensure that the procurement options review was as comprehensive as possible, a further procurement options meeting took place on the 12 May 2017 to further evaluate the above options against an OJEU competitive procurement with negotiation route. The framework options open to the council were also reviewed.
- 11.11 A consensus has been reached that the Southern Construction Framework (SCF) – provided there is sufficient interest from amongst the eight Tier 1 contractors on the framework – may offer the optimum procurement route on the basis of the speed with which a contractor could be brought on board and the benefits of early market engagement on cost and buildability ahead of the submission of the planning application.
- 11.12 In addition to the SCF, the project team also looked at a number of other frameworks that would be suited to a high-value construction project but were ultimately discounted for various reasons:
- **Scape – National Construction Framework:** Discounted due to there being only one supplier on the framework/lot, making it difficult to demonstrate that the council has secured a competitive price and best value;
  - **Hyde Group – Main Contractor Framework:** Discounted due to the framework expiring in May 2017;
  - **GLA – London Development Panel:** Discounted due to the framework expiring in November 2017. Although the council will aim to have procured the contractor by this date, the call-off from the framework should not overhang the term of the framework for a significant period and certainly not for a period of ~4 years;
  - **Family Mosaic – Contractors Framework:** Discounted due to being a housing framework; and

- **HCA – Delivery Partner Panel 3:** Discounted due to the framework not having been awarded yet with unclear timescales for when this would happen.
- 11.13 It should be recognised that the OJEU restricted route offers a number of similar advantages to the framework route, albeit timescales are slightly longer and the costs of procurement higher. Through discussion with finance and procurement teams the need to establish a clear exit route from the framework process – either during the second mini-competition stage if interest is not sufficient to generate the competition we require or inadequate bids were returned, or if during the PCSA period the contractor appears not to be performing – has been agreed.
- 11.14 This will leave the OJEU restricted two-stage process as our recommended fall-back in the PCSA period and the potential for a single-stage OJEU process to be used at the end of the PCSA period if confidence in the framework contractor’s performance or pricing is not strong enough.
- 11.15 A fuller procurement options report was prepared and presented to the Chief Executive for approval to commence the procurement of a build contractor via the Southern Construction Framework. This was signed off on 26 May 2017.
- 11.16 The Chief Executive also agreed that there should be the fall-back option of an OJEU restricted procurement exercise if the outcome of the mini-competition amongst the SCF contractors is unsatisfactory in terms of interest generated or inadequate bids.
- 11.17 This report also seeks Cabinet authority to procure and appoint an Employer’s Agent, to act on the council’s behalf, in administering works contracts. An Employer’s Agent is a crucial role in any design and build contract; they help ensure the contractors are meeting the council’s requirements in delivering the scheme.

## **12. LOCAL PRESENCE**

- 12.1 As referred to in 6.3 and 6.8, since November 2015, the scope and purpose of the civic centre project has expanded as further developed design work has progressed. This has included the opportunity to make greater use of the Royal London Hospital site by the provision of a council ‘Local Presence’ and an accessible community space on the ground floor of the new civic centre building.

- 12.2 The inclusion of Local Presence within the new civic centre is considered a key opportunity by the Corporate Leadership Team, elected representatives as well as the wider council. Local Presence is aligned to the council's transformation agenda to move towards a more digital customer access model.
- 12.3 Local Presence will be delivered in Idea Store Bow, Idea Store Chrisp Street, and Idea Store Watney Market. Officers are developing detailed options for the delivery of Local Presence in the Civic Centre and Idea Store Whitechapel, to ensure a coherent offer and distribution of activities that will create the sense of a single 'learning and ideas' campus across both buildings. Central to this will be delivering a space on the ground floor of the civic centre that is neither a traditional municipal council office nor a community hall venue, but one where a wide variety of people are attracted to the space and feel comfortable in it. This will build on the Idea Store model's best practice of 'third space', a social surrounding for local residents which is welcoming and accessible, neither in the home (first space) nor the office (second space).
- 12.4 This also provides an opportunity to mainstream the council's employment and skills service through the use of a prominent high-street location.
- 12.5 Local Presence will be the key platform for the council's future face-to-face offer, complementing digital and voice channels for its Customer Access Model. It will ensure the council maintains a physical presence in neighbourhoods across the borough during a period of asset consolidation. As the council seeks to move to a 'digital first' customer access model, it will offer assisted digital self-service and provide a safety net for customers who are unable or lack the skills or confidence to access council services via digital or telephone channels.
- 12.6 The Target Operating Model for the Smarter Customer Access Programme proposes grouping frontline services into different tiers:

<b>Tier</b>	<b>Type</b>	<b>Includes</b>
Tier 1	Generalist	<ul style="list-style-type: none"> <li>○ Transactional contacts (pay, apply, report)</li> <li>○ Simple advice, information and sign-posting</li> <li>○ Triage complex enquiries to re-route to Tier 2 or Tier 3</li> </ul>
Tier 2	Specialist	<ul style="list-style-type: none"> <li>○ Simple assessments</li> <li>○ Complaints</li> <li>○ Specialist advice and guidance</li> </ul>
Tier 3	Service specific	<ul style="list-style-type: none"> <li>○ Complex assessments</li> <li>○ Professional advice and information</li> </ul>

- 12.7 Local Presence will be focused on providing Tier 1 services, with some Tier 2 services where appropriate. Tier 3 services are excluded, as well as service interactions which require privacy for the benefit of the customer receiving the service as well as other customers. Those services excluded from Local Presence will be delivered from a range of existing locations, as well as dedicated space in the civic centre.
- 12.8 Local Presence sites will be the 'front door' for information about council and other local services, and an access route to assisted digital service transactions as well as for the delivery of suitable universal face to face service provision (often in the form of advice and guidance and interactive group activities). When customers come in the front door, they will be able to:
- access, via a re-designed council website, a comprehensive directory of services with links to online application, enrolment and booking forms;
  - complete the majority of transactional services online with assistance from staff as needed;
  - be pointed in the right direction by staff if they need further assistance or 'triaged' for referral to more complex services or assessments;
  - book appointments to access services which require a more detailed face to face interaction and/or privacy;
  - access activities that bring together residents from different backgrounds and communities to support cohesion;
  - access library, employment, learning and information services and a range of other printed and online information about public services.
- 12.9 Existing Idea Stores have been identified as the most effective and rapid way of initially delivering Local Presence, for a number of reasons:
- Current Idea Store locations are based on detailed catchment area mapping and location and travel-time preferences in town centres as identified through market research with customers and potential customers (non-users);
  - Customer experience in Idea Stores is consistently excellent, as reflected in customer satisfaction surveys and comparative Annual Resident Survey data;
  - People already choose to visit Idea Stores in very high numbers;
  - Idea Stores can accommodate the Local Presence offer as it does not require significant additional floorspace (due to its digital model), and can be delivered by existing Idea Store staff for no extra revenue costs;



- Residents want to use Idea Stores for Local Presence activities, as identified in market research, most recently carried out in November 2016.

12.10 When considering the November 2015 report, the Mayor stated that it was vital to ensure that the council maintained a local presence around the borough, particularly in Bethnal Green and the Isle of Dogs. In addition, the Mayor instructed officers 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 although the project team were later advised that this was not a suitable location for an Idea Store. These options will be considered in more detail in the near future.

### **13. PLANNING**

- 13.1 The project and design teams have been engaging with the local planning authority, particularly in relation to Heritage England requirements. Formal pre-application discussions will continue until the project and design team have the necessary level of design work and prepared the requisite documentation that allow for the submission of a planning application. A series of meetings have been held with Historic England (see section 6.5) and more meetings will take place as required.
- 13.2 Due to the requirements for Listed Building Consent the application is likely to be referable to the Secretary of State. The project team are taking steps to engage with the relevant amenities societies (Victorian, Georgian and Historic England) and to keep them informed throughout the planning process. This will include a letter being issued about the soft strip works, an offer to meet with the project team during pre-application consultation as well invitations to the borough-wide consultation events.
- 13.3 The application is also referable to the Greater London Authority due to the height and massing of the proposed scheme. After the application is submitted to the local planning authority, they will refer it to the Mayor of London, who has six weeks to provide comments on the application, assessing whether it complies with the London Plan policies.
- 13.4 It is envisaged that the application for planning permission and listed building consent will be submitted in October 2017 with a decision expected in early 2018. Pre-application planning consultation will take place in July 2017; this is in addition to the formal consultation during the application determination period.

## 14. PROGRAMME CRITICAL PATH

- 14.1 A high-level programme is set out below. This programme will be re-evaluated following the Cabinet meeting on 27 June 2017. The table below details the key governance meetings and the programmed delivery of the design and construction stages.
- 14.2 The project team are working with the design team and advisors to actively explore how the programme can be brought forward. Some of the work on this to date has included looking at procurement and soft strip.
- 14.3 The current working programme for the project assumes the following milestones:

Milestone	Date	Comment
Stage 1 Submission & Approval	29 Jul 16	Completed
CEO Stage 1 presentation	8 Aug 16	Completed
CEO/Mayor Stage 1 presentation	7 Sep 16	Completed
Stage 1 – Historic England concept development	Aug - 7 Sep 16	Completed
CLT Transformation Board	14 Dec 16	Stage 2 instruction update
Stage 1 Sign off and confirmation of the Brief	9 Jan 17	Completed
Stage 2 Commencement	9 Jan 17	Completed
Stage 2 (Concept Design) Report Submission & Approval	May – Jun 17	Completed
Cabinet Report	27 Jun 17	On target
Enabling Works (Soft Strip) Planning	July to Oct 17	On target
Enabling Works (Soft Strip) – procurement and works	Dec 17 – Mar 18 (indicative)	Revised; on target
RIBA Stage 3 (Detailed design)	Jun 17 to Mar 18	On target
<i>Procurement Main Contractor via Framework</i>	<i>June 17 to Sept 17</i>	On target
<i>Submission of main planning application</i>	<i>October 2017</i>	On target
<i>Commence RIBA Stage 4: Technical Design</i>	<i>Mar 18 to Mar 19</i>	TBC
<i>RIBA Stage 5: Construction</i>	<i>27 May 18 to 19 Nov 21</i>	TBC
<i>RIBA Stage 6: Handover</i>	<i>22 Nov 21 to</i>	TBC

<b>Milestone</b>	<b>Date</b>	<b>Comment</b>
	<i>17 Dec 21</i>	
<i>Project Longstop</i>	<i>17 Dec 21</i>	TBC
<i>Client Fit Out</i>	<i>27 Sept 21 to 11 Mar 22</i>	TBC

- 14.4 All dates in italics above are subject to review and improvement alongside the review of the procurement options review.

## **15. COMMUNICATION AND ENGAGEMENT**

- 15.1 The project team have been working with the council's Communications service to produce a communications and engagement strategy as part of the project.
- 15.2 The proposed civic centre will deliver significant benefits for local residents. It will also help the drive to modernise and streamline how the council works. The project will also aim to unearth and document historic community and personal connection to the former Royal London Hospital building. In addition, it will be a physical demonstration of the council's continued journey towards increased accessibility, openness and transparency.
- 15.3 The project team will be talking to a wide range of stakeholders including staff and trade unions, residents and residents' groups, community groups and the wider voluntary and community sector, public sector partners, neighbouring landowners (including Barts), Transport for London, local schools and Queen Mary University of London, and local businesses including the market traders.
- 15.4 As part of the planning process, pre-application public consultation events will be held in mid-July 2017 – a 2-day event in Whitechapel, followed by four satellite events in the south (Isle of Dogs), north east (Bow), central (Mile End), and north west (Weavers) parts of the borough. Exact dates are yet to be confirmed.

## **16. PROJECT RESOURCES**

### **16.1 Client team**

- 16.1.1 The Project Sponsor (and chair of the Project Board) for the civic centre project is Will Tuckley, the Chief Executive, with Ann Sutcliffe, Divisional

Director, Property & Major Programmes, as the Senior Responsible Officer (SRO). The Project Sponsor and SRO are supported in the delivery of the project by a core project team consisting of 5 FTEs, additional ad hoc resources (e.g. ICT Design Advisor) as well as a wider project team with officers from across the council.

16.1.2 Projects that members of the team have worked on include over £2 billion of public and private developments in the civic, education, housing, commercial and regeneration sectors in London and the South East.

16.1.3 The core project team are also supported by other teams and services in the council including the council's Asset Management team, providing advice on property and related matters, and Facilitates Management team, providing advice on building operation and maintenance.

## 16.2 **Design Team**

16.2.1 The architect-led multi-disciplinary design team is led by Allford Hall Monaghan Morris (AHMM), an internationally renowned architectural practice and winner of the RIBA Stirling Prize – the UK's leading architectural award – in 2015 for their work on Burntwood School in Wandsworth.

16.2.2 AHMM have also been awarded the RIBA London Building of the Year, CABE's Building for Life Award, BCIA Local Authority Award, and the Civic Trust Award amongst others.

16.2.3 Examples of projects that AHMM have worked on include:

- Southwark Town Hall (£41.6m, part refurb and part new build offices);
- Barking Learning Centre (£71m, mixed-use development with library/one-stop-shop as anchor);
- The Library at Willesden Green (£10.5m, refurb and new build library, archive, museum and council offices);
- Television Centre, White City (~£600m, mixed-use redevelopment of Grade II listed former television studio);
- Scotland Yard (refurbishment and extension of existing building); and
- Barbican Centre (£17.5m, art gallery, arts centre, cinema).

16.2.4 AHMM have been joined by a number of sub-consultants from a wide range of disciplines including Exigere (cost consultants), Elliott Wood (structural engineers), Atelier Ten (MEP engineers), KLA (landscape architects), Gilleron Scott (acoustic consultants), Gerald Eve (planning consultants), Richard Griffiths (historic building architects), TPP (transport consultants),

Blue Sky Building (construction consultants), and BSG Ecology (ecology consultants).

## **17. RELATED ISSUES**

### **17.1 Neighbouring developments**

- 17.1.1 There are a number of neighbouring developments that may have an impact on the proposed civic centre; this includes Barts, who remain in ownership of the site immediately to the south of the council-owned site. The project team are, where appropriate, engaged in dialogue with the relevant landowners/developers to ensure there is sufficient coordination.

## **18. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 18.1 A review of the external financial modelling has been carried out including in particular the assumptions set out in para 8.7.3 and in the exempt report and the costs associated with the alternative financing strategies.
- 18.2 The financing options set out in section 8.8 consider the alternative approaches that could be adopted; currently in line with the original decision in November 2015 a strategy of minimising borrowing through the application of the identified capital receipts is considered appropriate, although the CFO strongly recommends that the alternative financing options be considered again prior to contract award to take account of the uncertainty surrounding borrowing and investment rates in the light of economic and environmental factors such as Brexit.
- 18.3 Whilst recognising the importance of providing clarity to the contractor market that funding is in place it is noted that the financial modelling supports a position where the project demonstrates a positive NPV if it were financed fully through borrowing. As such the assumption of site disposals will be given further consideration as part of the Council's evolving Capital Strategy discussions and recommendations relating to this element of the project will be presented to the Project Board prior to the main contract being awarded.
- 18.4 In particular the Council is progressing a number of approaches to acquire, develop and provide a range of housing options. Given that the report already acknowledges the potential for some of these sites to be used for housing development purposes, Members will want to consider whether

there is an opportunity for the Council to utilise and gain further benefits itself from those surplus sites.

- 18.5 In addition the Council as part of its 2016/17 budget setting proposals has set aside a Reserve of £20m which is also available to use as a source of financing for the overall project, which will be taken into consideration as part of the alternative funding options.

## **19. LEGAL COMMENTS**

- 19.1 The report provides an update on the financial aspects in respect to costs and funding of the new civic centre project, developments since the November 2015 Cabinet report and, specifically, seeks authority to:
- (i) adopt a capital estimate;
  - (ii) authorise the potential use of prudential borrowing;
  - (iii) agree a revised fee for the appointed design team; and
  - (iv) enter into contracts with the main build contractor following a compliant procurement exercise.

### Adoption of a capital estimate and funding

- 19.2 Section 9D(2) of the Local Government Act 2000 (as amended) provides that all functions of the Council shall be functions of the Executive except insofar as they are reserved to full Council by statute or regulations. The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 reserves responsibility for the adoption of budget and the financial plan/strategy (which includes the allocation of financial resources to projects, decisions relating to the control of the Council's borrowing requirement and the control of its capital expenditure) to full Council.
- 19.3 It is therefore the responsibility of the Executive to implement the budget and financial plan/strategy and any decisions taken must not be contrary to, or not wholly in accordance with, that approved framework.
- 19.4 Part of the funding for the project may be generated by prudential borrowing and section 8 of the report describes the nature of borrowing proposed. The Council is permitted by section 1 of the Local Government Act 2003 to borrow money for any purpose relevant to its statutory functions or for the prudent management of its financial affairs. The Council must stay within its determined borrowing limit.
- 19.5 Accordingly, provided the decisions to adopt a capital estimate and to authorise the use of prudential borrowing are in line with the budget and

plan/strategy agreed by full Council, then the proposed recommendations are permissible.

#### Revised design team fee

- 19.6 Section 7.18 refers to the need to agree a revised fee with the design team as a direct result of the unforeseen changes to the scheme. This will constitute a “modification” to the contract for the purposes of the Public Contracts Regulations 2015 (the “Regulations”). Modifications to contracts are permitted under the Regulations in certain circumstances and the Council may consider that there are two exemptions which could be applied.
- 19.7 Regulation 72 permits modification where, under subparagraph 1(c):
- i. The need for the modification has been brought about by circumstances which a diligent contracting authority could not have foreseen;
  - ii. The modification does not alter the overall nature of the contract; and
  - iii. Any increase in price does not exceed 50% of the value of the original contract.
- 19.8 Additionally, or in the alternative, Regulation 72(1)(e) permits modification where, irrespective of value, the modification is deemed to not be “substantial”. For the purposes of subparagraph 1(e), the Regulations provide that “substantial” means:
- (a) that the modification renders the contract materially different in character;
  - (b) that the modification introduces conditions which, had it been part of the initial procurement procedures, would have –
    - (i) allowed for the admission of other candidates than those initially selected;
    - (ii) allowed for the acceptance of a tender other than that originally accepted; or
    - (iii) attracted additional participants in the procurement procedure;
  - (c) that the modification changes the economic balance of the contract in favour of the contractor in a manner which was not provided for in the initial contract;
  - (d) the modification extends the scope of the contract; or
  - (e) a new contractor replaces the one to which the contracting authority had initially awarded the contract in cases other than where there is a corporate restructure (or the like).

- 19.9 Where the exemption under Regulation 72(1)(c) is being relied upon, there is a requirement to publish a Voluntary Ex Ante Transparency (VEAT) notice pursuant to Regulation 51. The purpose of the VEAT notice is to explain to the market that the Council has made a modification to the contract and allows the Council to resist a challenge on the grounds of ineffectiveness provided that it observes a 10 day standstill period which commences on the day that the notice is published in the OJEU. After that date, no later challenge can be brought which would see the modification declared ineffective by the courts, and therefore rescinded or annulled. Where the exemption under Regulation 72(1)(e) is being relied upon, there is no requirement to publish a VEAT notice.
- 19.10 In the circumstances, and given that both exemptions could legitimately apply to the modification, it may be considered that a VEAT notice is not required by relying on Regulation 72(1)(e). Notwithstanding, there will be a need to enter into a deed of variation to give effect to the modification to the design team's contract.

#### Contracts with the main build contractor

- 19.11 In order to carry out the necessary works to the old Royal London Hospital building, there is a need to procure a main build contractor. The value of the works will exceed the OJEU threshold (currently £4,322,012) and, as such, the Council is required to let the contracts in accordance with the Public Contracts Regulations 2015 (the "Regulations").
- 19.12 Following a comprehensive and robust review of the procurement options available to the Council, taking into account the project drivers, it has been determined that the use of an appropriate framework agreement is the most suitable route for the appointment.
- 19.13 As a contracting authority, the Council is permitted to 'call-off' a compliant framework agreement in circumstances, generally, where:
- There is a term remaining on the framework agreement to cover most, if not all, of the term of the call-off;
  - The procurement and award of the framework agreement was conducted in a manner compliant with the Regulations (including Regulation 33), where applicable;
  - The scope of the works and/or services is within those covered by the framework agreement;
  - The Council is named on the notice published in the Official Journal of the European Union (OJEU), or fits within a class of contracting authorities named in the notice from which it is immediately identifiable;



- The procedure for awarding a call-off under the framework agreement is complied with; and
  - The value stated on the OJEU notice has not been exceeded to the extent that it could be considered a material change to the framework agreement.
- 19.14 Following careful analysis of suitable agreements on the market, it has been determined that the Southern Construction Framework (SCF) represents the best fit.
- 19.15 Authority is in place to commence a procurement exercise using the SCF and a mini-competition will be undertaken in order to appoint the main build contractor in compliance with the Regulations and the terms of the SCF. In the event that the mini-competition fails to bear results, owing either to the absence of sufficient competition or the inadequacy of bids, the Council retains the ability at any point to commence an OJEU procurement exercise in the alternative.
- 19.16 The Council is undertaking a two-stage tendering approach, which is typically used to achieve an early contractor appointment. At the end of the mini-competition, the bidder who submits the most economically advantageous tender based on the pre-determined award criteria (which would usually include inter alia an assessment of method statements, preliminaries, overheads and profits) will be awarded the Pre-Construction Services Agreement (PCSA). Following the PCSA period, during which time the Council and its design team will be working with the contractor to agree on such matters as buildability, sequencing, and delivering certain work packages (including asbestos removal), the Council has the option – though is not required – to enter into the main JCT design and build contract with the same preferred contractor. Having entered into the design and build contract, the Council’s design team may then, subject to what services remain to be delivered, be novated to the contractor so as to drive a cost-effective solution and to create a single point of responsibility and redress for the design and build elements. If novation is required, a deed of novation will be entered into between the parties to give effect to this.
- 19.17 Should the Council not be satisfied with the outcomes delivered by the preferred contractor during or at the end of the PCSA period, the Council can legitimately decide to not award the preferred contractor the main build contract. Instead, the Council may in the alternative award the contract to a reserve bidder, or run an OJEU procurement process. Depending on the level of cost and design certainty achieved during the PCSA period, this may entail a single-stage (or a significantly accelerated two-stage) tender process.

- 19.18 The Council has a duty 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. One way in which the Council seeks to fulfil this duty, in terms of letting contracts, is by complying with its procurement procedures. The general principle is that the Council seeks to achieve best value by subjecting spend to competition and selecting the preferred contractor by applying award criteria based on the best and appropriate combination of price and quality. Ultimately the Council must be satisfied that the project and the engagement of any contractors will also provide best value. Best value is further considered at section 21.
- 19.19 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). This is considered further at section 20.

## **20. ONE TOWER HAMLETS CONSIDERATIONS**

- 20.1 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.
- 20.2 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 can be prohibitively expensive.
- 20.3 The purpose-built civic centre development will allow the council to design the building so as to ensure it is fully accessible. This has been specified as part of the design process to ensure it is a central consideration.
- 20.4 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.

- 20.5 The procurement process, when securing a contractor, will ensure that equalities and diversity implications – and other One Tower Hamlets considerations – are addressed through the mini-competition process, and all contracting proposals are required to demonstrate that both financial and social considerations are adequately and proportionately addressed.

## **21. BEST VALUE (BV) IMPLICATIONS**

- 21.1 Section 3 of the Local Government Act 1999 requires local authorities 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'.
- 21.2 The financial appraisal and business case, the details of which are set out in the exempt report, demonstrate that the proposed redevelopment of the former Royal London Hospital meets that requirement.
- 21.3 The project team will be ensuring the council secures value for money through the procurement process by utilising a compliant framework, the Southern Construction Framework. The contractors on the framework have already been through a competitive process in order to be appointed to the framework and the project team will carry out a series of mini-competitions amongst those contractors to secure the best outcome for the council.
- 21.4 The project team have carried out significant financial modelling to understand whether or not the proposal represents value for money on a Net Present Value basis. This has included modelling a number of different scenarios as well as additional stress testing of each scenario. The outcome of this exercise is set out in section 8 above.

## **22. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 22.1 Environmental and sustainability implications have been a high priority consideration as part of the design process. This has included incorporating the necessary elements into the building to secure an 'excellent' BREEAM (Building Research Establishment Environmental Assessment Method) rating; a long established method for assessing, rating and certifying the sustainability of a building. The project has CO<sup>2</sup> emission reduction targets and a minimum 45% site-wide target for improvement (building energy efficiency) in the conservation of fuel and power.

22.2 Measures being considered include:

- the provision of cycle space and facilities to discourage car use;
- ensure that at least half of all timber and timber ? produced are sourced from accredited FSC or PEFC sources;
- installing a system for the management of rainfall runoff;
- no loss in the quality of the surrounding biodiversity and measures implemented to enhance this;
- replacement of all building services with energy (and water) efficient systems; and
- replacement of all glazing with double glazing with low-e coating and solar control.

22.3 In addition, the following renewable energy options are being considered: air source heat pumps (ASHP), solar thermal, photovoltaic (PV), and hybrid solar photovoltaic-thermal (PV-T).

## **23. RISK MANAGEMENT IMPLICATIONS**

23.1 A strategic risk register is maintained on the Council's risk management JCAD system and updated by the civic centre project team in advance of Project Board meetings. Risks are reviewed in Project Team meetings, Project Board and AHMM Client Meetings.

23.2 The following risks reflect the current risks as being managed by the project team and senior officers across the council:

- I. Failure to secure an extension to the current lease or alternative accommodation results in additional costs to ensure delivery of a business continuity office location, i.e. a temporary office location or extension of the current lease.
- II. Failure to have a clear and approved funding strategy for the civic centre, due to a change in the business case assumptions, results in a failure to gain stakeholder support and programme delay.
- III. There is a risk that a lack of engagement with Barts and the London NHS Trust leads to programme delays. This engagement is required to deal with issues of site access opportunities for construction and in relation to London Square public realm improvements; failure to do so may result in a sub optimal programme with less efficient construction.
- IV. Failure to set out and manage a clear ICT strategy for the transition phase to the new civic centre. There is a risk of escalating abortive costs to negotiate commercial arrangements, and an inability to develop a technical specification will lead to a programme delay.

- V. Failure to give clear direction on how the service transformation agendas will be delivered in the new civic centre and JOH, i.e. digital transformation, workforce transformation, local presence transformation, will lead to the failure to deliver the council's service delivery transformation agenda.
- VI. Expiry of, or a tendering process for, the ICT Managed Service contract could potentially disrupt the design and installation of the active infrastructure in 2021 and lead to mobilisation issues with any new providers.
- VII. Failure to secure an affordable capital construction cost due to project delay and market heating/construction inflation throughout the project's pre-procurement lifecycle leads to affordability risks due to inflation and exchange rates (in relation to materials being sourced from Europe etc).
- VIII. Failure to confirm the outstanding elements of the Stage 2 (or any/all of the Stage 3) civic centre brief leads to the programme stalling and failing to meet its business case objectives.

## **24. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 24.1 There are no immediate crime and disorder implications arising from this report.
- 24.2 Vacant buildings such as the former Royal London Hospital site or some of those identified for disposal, can attract squatting, vandalism, and criminal or anti-social behaviour. This is currently being managed through on-site security.
- 24.3 However, bringing the buildings back into use, either through council-led redevelopment as will be the case for the former Royal London Hospital, or by disposing of the site to allow a developer to bring forward a scheme, will ensure this risk is mitigated.

## **25. SAFEGUARDING IMPLICATIONS**

- 25.1 There are no immediate safeguarding implications arising from this report. Any safeguarding requirements from the council's Children's and Adults' Services departments will be picked up through the briefing process, including, for example, the provision of family-sized interview/meeting rooms and the provision of the required facilities for multi-agency working.
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## **Linked Reports, Appendices and Background Documents**

### **Linked Report**

- Civic Centre – End of Stage 2 Update – Restricted report (June 2017)
- Civic Centre Project (November 2015)

### **Appendices**

- None

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

- None

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