

Cabinet



Forest Heath
District Council

Title of Report:	Mildenhall Hub – Funding	
Report No:	CAB/FH/17/011	
Report to and dates:	Overview and Scrutiny Committee	12 January 2017
	Cabinet	14 February 2017
	Council	22 February 2017
Portfolio holder:	Councillor James Waters Leader of the Council Tel: 07771 621038 Email: james.waters@forest-heath.gov.uk	
Lead officer:	Alex Wilson Director Tel: 01284 757695 Email: alex.wilson@westsuffolk.gov.uk	
Purpose of report:	To present and update the Overview and Scrutiny Committee report of 12 January 2017 and present recommendations regarding the funding and delivery of the Mildenhall Hub Project, reflecting the outcome of the scrutiny process and further activity on the Project.	
Recommendations:	It is <u>RECOMMENDED</u> to Council that: (1) the funding model, with estimated project budget and cash flow, set out in this report and its Appendix, be agreed and the Mildenhall Hub Project be approved to proceed to its planning and delivery stages; (2) a funding/partnership agreement with the project partners be prepared and signed by the Director, in consultation with the Leader and Portfolio Holder for Resources and Performance, on the basis set out in Section 6 of Appendix A to this report;	

Recommendations (contd):	<p>(3) Cabinet be authorised to approve a separate business case for an investment of up to £4m in renewable energy provision in the Hub provided that this business case is in line with the Council’s Medium Term Financial Strategy; and</p> <p>(4) The Council’s Section 151 Officer make the necessary changes to the Council’s prudential indicators as a result of recommendation (1).</p>
Consultation:	<p>The prior development of the Hub project has been based on public, partner and stakeholder consultation. Public consultation has also taken place in early 2017 before the submission of a planning application (which will entail its own consultation).</p> <p>Councillors have been extensively involved in the decision-making process for the Hub (see background papers below). The Overview and Scrutiny Committee examined the project in January 2016 and January 2017 and this report reflects the outcome of the latter.</p>
Alternative option(s):	The 2014 Hub business case examined over 10 different options
Implications of this report:	
<i>Are there any financial implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> As outlined in report
<i>Are there any staffing implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Covered in wider project planning.
<i>Are there any ICT implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Covered in wider project planning.
<i>Are there any legal and/or policy implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> As outlined in report
<i>Are there any equality implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Covered in wider project planning.

Risk/opportunity assessment:			<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>
<i>Please note: this is <u>not</u> a risk assessment for the Hub project as a whole, but for the subject matter of this report only</i>			
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
The Hub is unaffordable to FHDC and its taxpayers – either at the outset or due to budget changes during project delivery	Medium	Properly evaluate likely costs (including borrowing costs), with contingencies, and sources of funding through this report prior to adoption of a funding agreement and a final decision to proceed. Report back to Members if initial procurement results in a cost which exceeds the agreed budget in this paper. Deliver project in accordance with the Council’s project and risk management processes, and maintain strong project governance.	Low
There is not a strong business case for FHDC to invest in the Hub	Low	Examine the strategic and financial case through this report.	Low
There is not a transparent and fair means of dividing costs for the project	Low	Develop a funding agreement along the principles outlined in this report.	Low
There are not safeguards to protect the interests of FHDC and the taxpayer	Low	Ditto	Low
Ward(s) affected:		All Wards	
Background papers: <i>(all background papers are to be published on the website and a link included)</i>	Hub papers <ul style="list-style-type: none"> • O&S Committee report – Hub Funding – January 2017 • Cabinet/Council report February 2016 - Mildenhall Hub Updated Business Case • Cabinet report 14 July 2015 - Mildenhall Hub Project Update • Cabinet report December 2014 - Mildenhall Hub Project Update (business case and next steps) • Cabinet report July 2014 - Mildenhall Hub Project and ACL Management Fee • Cabinet report January 2014 - Mildenhall Dome Leisure Centre • Cabinet Update report June 2013 (excluding Appendix 1) • Mildenhall Hub leaflet March 2013 • Cabinet background report February 2013 Other matters <ul style="list-style-type: none"> • Office Accommodation Plan, Cabinet, 25 November 2015 		
Documents attached:	Appendix A: Overview and Scrutiny Committee – 12 January 2017 – Report No: OAS/FH/17/001		

1. Purpose of Report

- 1.1 On 12 January 2017, the Overview and Scrutiny Committee considered report [OAS/FH/17/001](#) in respect of the funding for the Mildenhall Hub Project. The Committee endorsed the report and referred it on for formal consideration by Cabinet and Council in February. The scrutiny report is attached as **Appendix A** and should be read in conjunction with this covering report.
- 1.2 The purpose of this covering report is to provide additional information requested by the Overview & Scrutiny Committee and update some of the other information in the original report. The report also provides formal recommendations for consideration by Cabinet and Council which, if agreed, will provide final approval for the project to proceed to its planning and delivery stages.
- 1.5 This report on the funding of the Project is not councillors' opportunity to input to the Hub's draft design. Similarly, any decision to proceed with the project should not be confused with decisions to be taken separately by the Council in its role as Local Planning Authority. Taking a view on the business case for the Hub does not fetter any councillor's discretion in relation to the planning application, which must be considered separately on its own merits at the appropriate time. **It is also fully acknowledged that, in taking forward the Hub, planning and highways issues will need to be addressed through the formal planning process, in accordance with the adopted Development Brief and involving public consultation.**
- 1.6 Furthermore, this report does not seek to re-examine, or gain approval for, the principle of establishing a Hub, which has already been the subject of consultation and consideration by FHDC's O&S Committee, Cabinet and full Council. The requirement for change to the public estate in Mildenhall was established and approved through the 2014 Outline Business Case (updated in January 2016). This earlier piece of work identified a single hub at Sheldrick Way as the Council and other partners' preferred option to address the identified issues. The business case established partners' requirements and contained a full appraisal, taking into account the relative benefits, constraints and risks of each option (including status quo). The business case can be found at: www.mildenhallhub.info.

2. Updates to January 2017 Scrutiny Report

Capital Estimates

- 2.1 The January 2017 report assessed funding in the context of the 2016 budget estimate for Forest Heath of £20m. Since preparation of that report, the Hub Project Board has received the assessment of the design team's quantity surveyor of the concept design that formed the basis of the public "pre-application" consultation in January and February 2017 (closing date 10 February 2017).
- 2.2 This latest estimate of the FHDC share of the capital cost, excluding renewable energy, is £17.4m (within a total project cost of £36.76m). While this assessment gives us a degree of assurance that the project is deliverable

within the original budget, it is suggested that the Council continues to work on the basis of its original £20m estimate until after the planning and procurement stages of the project, for the following reasons:

- (a) This is still an estimate based on a concept design, rather than the technical design that will be submitted to planning.
- (b) The design may require adaptation as a result of the pre-application consultation and comments from the public and stakeholders, evaluation by the Council's insurers and external advice commissioned for specialist elements e.g. swimming pool design.
- (c) As important as (a) and (b), the scheme has not been subjected to any procurement and the final cost will be dictated by market conditions.
- (d) This estimate contains a number of exclusions that are not possible for the design team to estimate, the most notable of which is the cost of any s106 Agreement in relation to off-site works such as highways improvements.
- (e) The cost of the fit-out is still to be determined, particularly in relation to the leisure centre, and this may rise.
- (f) The FHDC share of costs in this estimate is still subject to testing through the funding agreement, since it makes certain assumptions about how costs are shared between partners.

2.3 In this context, the capital costs used in the scrutiny report attached as Appendix A are not changed. If the recommendations in this report are approved, the project will proceed to its planning and delivery stages on the basis of the cost to FHDC being up to £20m and, if this is not possible, the matter will be referred back to councillors.

Project Funding

2.4 As this is beyond the Council's direct control, there are no updates to report in relation to the availability of third party funding. There is, however, no reason to believe that the target funding position outlined in the scrutiny report should be changed at this stage.

Project Cash flow

- 2.5 The Overview and Scrutiny Committee noted that the intention was to provide a project cash flow before any final decisions on funding. On the basis that the £20m 'worst-case' capital estimate is retained, the basic funding model remains as follows:

Estimate of FHDC Capital Requirement

Description		£
Construction Cost (Est) – including fees	Up to	20,000,000
Leisure Client Advice		60,000
Capital Receipts from Vacated Sites		-1,350,000
Initial Maintenance Liability for Existing Buildings (from existing and future capital budget provisions)		-4,250,000
40 Year Maintenance Liability for Existing Buildings (from existing and future revenue budget provisions)		-1,190,000
Council's Strategic Priorities and Medium Term Financial Strategy Reserve	Up to	-3,000,000
Combined third party contributions (Est)		-5,350,000
Net Capital Requirement to be met from borrowing		4,920,000

Estimate of Annual FHDC Revenue Requirement

Description		£ p.a.
Borrowing costs (Interest and Minimum Revenue Provision)		258,300
Estimated Hub running costs		161,700
Budgeted building maintenance contribution at the Hub		143,000
Current budgeted office accommodation costs (saving)		-227,250
Rents (additional income)		-15,000
Average net impact on Abbeycroft current Management Fee		-223,000
Current building maintenance contribution for the Pool		-31,000
Current grant for dual-use of the Dome		-35,500
Contribution from renewable energy business case (net of borrowing costs)		-60,000
Net Revenue Saving		-28,750

- 2.6 This summary, however, does not show how the costs and benefits of the Project will be spread over the projected 40 year borrowing period. Some assumptions are required to produce such a cash flow projection, as follows:

- Build cost spread evenly between Jan 2018 and end March 2020.
- Capital receipt for College Heath Road in Q4 2019/20
- Capital receipt for Swimming Pool in Q1 2020/21.
- Various elements of third Party funding spread over construction period depending on source (some at outset at project, some split evenly and some at end)
- Leisure Client Advisor split evenly starting in 2017/18.
- Revenue benefits on offices start from 1st April 2020.
- Abbeycroft Management Fee savings as per business plan from

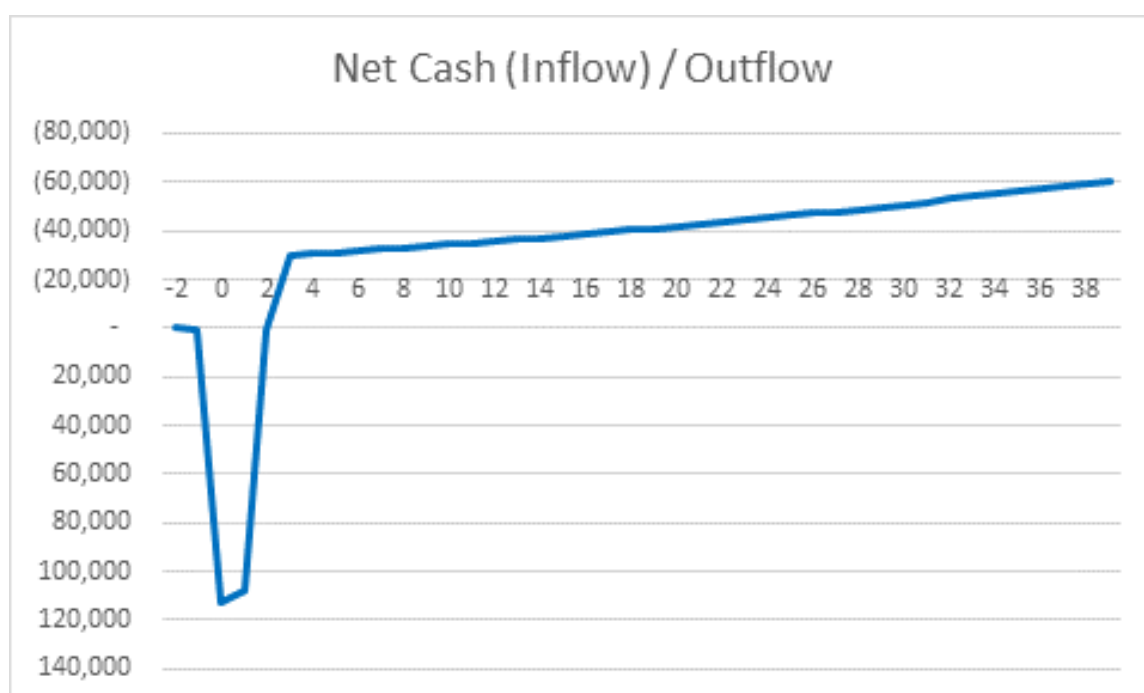
Abbeycroft.

- Mildenhall Dome Grant to finish on 1st April 2020.
- 2% inflation applied to Savings on Office Accommodation, Rents, Renewable Energy Income and Additional Building Maintenance Contribution.
- No inflation applied to Abbeycroft Management Fee, Mildenhall Dome Grant or Borrowing Costs.
- Minimum Revenue Provision contributions start in first full year the asset becomes operational i.e. 01/04/2020.
- Interest Rate Payable of 2.75%

2.7 Applying these assumptions, a summary of the indicative cash flow projection for the FHDC elements of the Project is as follows:

Building Year			1	2	3	4	40		
Financial Year	31/03/2018	31/03/2019	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2059	TOTAL
Total Cash Inflows	(1,908,889)	(7,575,556)	(7,575,555)	(262,550)	(372,361)	(404,728)	(407,653)	(556,787)	(35,723,493)
Total Cash Outflows	1,908,889	7,575,862	7,687,904	370,300	372,540	374,825	377,155	495,997	34,162,484
Net Cash (Inflow) / Outflow	-	306	112,349	107,750	179	(29,903)	(30,497)	(60,790)	(1,561,009)

Showing a net surplus over the 40 year pay-back period of just over £1.5m. Diagrammatically, with "year 1" starting on 1 April 2020, this is as follows:



2.8 The indicative net cash flow position only reflects new costs, income and savings associated with the development of Mildenhall Hub. The net cash outflow in the early years of the project relates to the interest on the borrowing needed during the building phase, whilst existing facilities are still operational. The phased reduction of the Abbeycroft Management Fee also has an impact on the early years cost of the project.

2.9 Any residual costs in the early years of the project can be met from the Council's Invest to Save Reserve whilst new income and savings materialise

and repayment of funds will then take place. Alternatively, consideration is currently being given to a policy of capitalising interest costs during the building phase of significant capital project. If adopted, this will have the effect of reducing the net cash outflow in the early years of the project by increasing the amount borrowed; but then it will also marginally reduce the annual net cash inflow over the remaining years of the project due to higher borrowing costs.

3. Recommendations and Next Steps

- 3.1 If the recommendations in this report are approved, the project will proceed, subject to planning consent being achieved and to procurement resulting in a cost to FHDC which is within the agreed budget of £20m. The next steps for the project are to complete a technical design, reflecting the pre-application consultation, and seek planning consent. In parallel to that process provisional appointments of contractors will take place (subject to planning), allowing market-testing of the project budget. This should give the Council some greater cost certainty by summer/autumn 2017.
- 3.2 Alongside the core design work, a separate business case for renewable energy provision (see section 6.2 of Appendix A) will be prepared, likely to entail an additional investment of £2m to £4m. It is proposed that, provided that this business case is in line with the Council's Medium Term Financial strategy in terms of the additional return generated, Cabinet may approve this business case and any subsequent additional investment up to £4m.
- 3.3 As outlined in the Scrutiny report, the key decision for the Council at this point is to authorise the signing of a funding agreement for the project which sets out the governance and financial responsibilities of each partner. As the agreement must be prepared within the framework set out in Appendix A (see section 6.1), it is proposed that the officers, in consultation with the Leader and Portfolio Holder for Resources and Performance, be authorised to prepare and sign this agreement during Spring 2017.