

Overview and Scrutiny Committee



Forest Heath
District Council

Title of Report:	Mildenhall Hub – Funding	
Report No:	OAS/FH/17/001	
Report to and dates:	Overview and Scrutiny Committee	12 January 2017
	Cabinet	14 February 2017
	Council	22 February 2017
Portfolio holder:	Cllr James Waters Leader 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 allow the Committee the opportunity to scrutinise outline funding plans for the Mildenhall Hub project before a funding agreement and final budget is considered by Council in February 2017.	
Recommendation:	It is <u>RECOMMENDED</u> that the Committee scrutinises this report and refers it with its own recommendation and any comments to Cabinet and Council.	

Consultation:		<p>The prior development of the Hub project has been based on public, partner and stakeholder consultation. Public consultation will also take place before and after submission of a planning application in 2017.</p> <p>Councillors have been extensively involved in the decision-making process for the Hub (see background papers below). This Committee last received an update on the project in January 2016.</p>	
Alternative option(s):		The 2014 Hub business case examined over 10 different options	
Implications of this report:			
Are there any financial implications? If yes, please give details		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> As outlined in report	
Are there any staffing implications? If yes, please give details		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Covered in wider project planning.	
Are there any ICT implications? If yes, please give details		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> Covered in wider project planning.	
Are there any legal and/or policy implications? If yes, please give details		Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> As outlined in report	
Are there any equality implications? If yes, please give details		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 scrutiny report only i.e. funding.</i>			
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
The Hub is unaffordable to FHDC and its taxpayers	Medium	Properly evaluate likely costs (including borrowing costs), with contingencies, and sources of funding through this and subsequent reports prior to adoption of a funding agreement and a final decision to proceed.	Low
There is not a strong business case for FHDC to invest in the Hub	Low	Examine the strategic and financial case through this and subsequent reports.	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
<p>Background papers: <i>(all background papers are to be published on the website and a link included)</i></p>	<p><u>Hub papers</u></p> <ul style="list-style-type: none"> • 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 <p><u>Other matters</u></p> <ul style="list-style-type: none"> • Office Accommodation Plan, Cabinet, 25 November 2015
Documents attached:	None

Important Note: *In some Local Plan consultation documents part of the proposed site for the Hub is included within a larger potential growth site (as they are in a single ownership). However, it should be noted that the working title "Mildenhall Hub" relates only to the relocation of existing public services as part of an extension of the Sheldrick Way school site. It does not refer to the proposal for a housing growth site to the West of Mildenhall, which is a separate matter.*

Executive Summary

The Mildenhall Hub is a bold and innovative project to renew and upgrade the public estate in Mildenhall. The Council's own elements of the scheme include a leisure centre and the replacement of its offices at College Heath Road. While the Council has already committed to progress the scheme to a planning application, it needs to finalise its funding arrangements in February 2017. To enable the Committee to scrutinise the funding of the project ahead of that decision, this report provides some initial financial information.

Although some information is still awaited, the current indications are that the Forest Heath elements of the scheme are likely to be financially deliverable in accordance with the Council's Medium-Term Financial Strategy. Furthermore, an investment by Forest Heath in the project will deliver considerable benefits on behalf of the local community and also address significant existing asset management issues.

The central element of the Hub, which would contain the Council's new shared offices, is likely to be deliverable within available resources and generate a saving for taxpayers. The new leisure centre offers a considerable increase in the quality and scale of facilities for the area, to meet current identified need. After applying available sources of capital, delivery of this leisure facility will require some borrowing, but this will be supported in full or part by savings made on running costs, including those from moving to new offices and the installation of advanced renewable energy technologies.

1. Update on Project Status and Purpose of Report

- 1.1 In July 2015, Forest Heath District Council (FHDC) approved an initial business case to develop a single-site public services hub at Sheldrick Way, Mildenhall aimed at achieving the following objectives:
- improving the quality of facilities to meet the needs of the local community
 - improving integration of public services
 - reducing running costs (and future capital liabilities) and
 - releasing vacated sites for regeneration in terms of homes and employment.
- 1.2 In February 2016, an updated business case was approved which indicated the likely capital cost of the FHDC elements of the project (excluding renewable energy) would be up to £20m, and that funding for this sum would be derived from several internal and external sources.

- 1.3 As part of these two decisions, a match-funding feasibility budget was provided to develop technical designs to test through the development control process (a planning policy 'Development Brief' for the site having been adopted by the Local Planning Authority in spring 2016 following public consultation). This design work is well under way with partners, and takes into account comments put forward by the public during the development of the development brief. A further public consultation will also be carried out in January and February 2017 – called a 'pre-application consultation'. Depending on the results of this consultation, and approval for funding, further design amendments could be made and it would then be possible to submit a planning application for the Hub in spring 2017. This would include the formal period of statutory consultation, giving those with an interest in the site a further opportunity to put forward their views. Subject to funding and planning consents, the aim is for the first phases of the Hub to be open in 2019/2020.
- 1.4 However, to fit within this project timetable, FHDC and all other partners will need to sign up to a funding agreement by early spring 2017 which will commit them to not only submitting the planning application but also, if that is approved, to meeting their share of the delivery and running costs of the project. This scrutiny report therefore focuses on the likely ability of FHDC to sign up to that agreement based on what is known financially about the project at December 2016 and explains what information is still to be received before Council considers the project in February 2017 (or after).
- 1.5 This report is not councillors' opportunity to input to the Hub's design, which will be arranged separately as part of the pre-application consultation. 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, which will be the subject of public consultation (pre and post-application) and a later decision by the Development Control Committee. 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. **Project Description and Summary of Envisaged Benefits**

2.1 Although this report is not focused on the operational details of the Hub, it is helpful to recap briefly on the project so that councillors can put the organisational and financial business case in context.

2.2 The Hub project is currently a partnership involving (in alphabetical order):

1. Abbeycroft Leisure
2. Academy Transformation Trust (Mildenhall College Academy)
3. Citizens' Advice Bureau
4. Department of Work & Pensions (Job Centre)
5. FHDC (on behalf of both West Suffolk councils where applicable)
6. National Health Service
7. Suffolk Constabulary/Police & Crime Commissioner
8. Suffolk County Council (including Suffolk Fire Service)
9. Suffolk Libraries.

2.3 As discussed in the 2016 update to the Business Case, there is no funding from central government to replace the existing Sixth Form Centre at Sheldrick Way so this will be retained, along with some of its playing fields, and linked to the new buildings at the Hub. Subject to confirmation by the other partners, the additional new facilities currently being explored by the partners for phase 1 of the Hub include:

- New secondary school
- Swimming pool (six lane 25m pool plus learner/family pool)
- Sports Hall, gym and fitness suites
- Outdoor sports facilities (including artificial pitch)
- Public meeting/teaching spaces
- Offices shared by councils, NHS, Police, DWP and CAB
- Fire Station (*subject to traffic evaluation*)
- Police Station
- Health Centre
- Library
- Pre-school facilities
- Soft-play facility
- Small public café for Hub users
- Shared infrastructure (plant, kitchens, parking, service yard, etc).

More detail on the FHDC elements of the Hub is provided later in the report. The final list of facilities will be confirmed by the partners before the planning application and the above list may change. In addition to what might be included in phase 1, the Hub is being designed to be extremely flexible so that it can evolve as needed, subject to subsequent planning applications if applicable. This would include the ability to add a primary school to the site if ever needed.

2.4 Subject to confirmation of the final list of facilities, the Mildenhall sites potentially vacated by the Hub project are:

- College Heath Road/Kingsway (police, health centre, library and FHDC)
- Bury Road school site
- Swimming Pool
- Fire Station (subject to traffic evaluation).

- 2.5 In brief, the potential benefits of the Hub identified in the 2014 business case included:
- radically improve the quality of facilities for post-11 education;
 - reduce the equivalent built elements of the existing public estate by around 5000m² or 20%, even allowing for an increase in the current range of leisure facilities;
 - include over 3000m² of shared internal space and shared meeting spaces;
 - potential to reduce the running costs of the public estate by over 50% (or £20 million) over 25 years;
 - relocate services from several sites down to one accessible location, close to the town centre (the only town centre facility being relocated is the swimming pool);
 - provide scope for some of the public services to expand in the future, if demand for them grows;
 - release several existing public sector sites for housing, retail, employment or other community uses;
 - provide a flexible environment for virtually any model of service delivery in the future, with strong community ownership;
 - house a shared 'Hub Host' team in a single shared reception area who can deal with first contacts with visitors; and
 - integrate ICT systems.

3. Scrutiny of Business Case

- 3.1 The following sections of this report are intended to assist councillors in scrutinising the financial information available for the Hub project as at December 2016. The views of this Committee and any remaining information will then be presented to Cabinet and Council in February 2017 so all councillors can decide whether or not to support the adoption of a funding agreement for the Hub to enable it to enter its delivery stage. The other partners in the project will need to make their own independent decisions to participate in delivery of the Hub and, for this reason, this report focuses primarily on the funding elements on which Forest Heath will take a direct lead.

4. Organisational Overview

- 4.1 It is important to re-confirm that the project is aligned to and/or complements the Council and West Suffolk's policy framework and other relevant corporate considerations. From the FHDC point of view, the Hub project is consistent with the following:
- a) **Strategic Plan:** consistent with key themes of partnership working, embedding commercial behaviours, offering the highest possible levels of customer service and supporting people to help themselves. The Hub also directly or indirectly supports all three priorities for West Suffolk and the envisaged new ways of working to achieve them, specifically:

Priority 1: Increased opportunities for economic growth

- beneficial growth that enhances prosperity and quality of life; and
- people with the educational attainment and skills needed in our local economy

Priority 2: Resilient families and communities that are healthy and active

- a thriving voluntary sector and active communities who take the initiative to help the most vulnerable;
- improved wellbeing, physical and mental health; and
- accessible green spaces.

Priority 3: Homes and communities

- new developments that are fit for the future, properly supported by infrastructure, and that build communities, not just housing.
- b) **Medium-Term Financial Strategy:** Responds to the challenges facing local government finance by investing in more efficient and/or income generating (leisure) facilities.
- c) **Asset Management Plan:** Addresses condition of swimming pool and district offices.
- d) **Office Accommodation Plan:** The 2015 plan which established the FHDC requirement for office space in the Mildenhall Hub (500m² and a target of 8m² per desk and a ratio of desks to staff of 70%) and agreed future office accommodation should: be cost effective for taxpayers; facilitate new methods of working; provide locality based services wherever practical; be flexible – now and for the future; enable multi-disciplinary and multi-agency working; maximise co-location opportunities with partners; enable the delivery of the Target Operating Model for customer access (digital by design); release maximum land for redevelopment and income generation (One Public Estate).
- e) **Customer Access Strategy:** Whilst there will be public services delivered through the Hub, customers will also be encouraged and supported to interact digitally with the council and partners. The Hub will provide support in building customer confidence and the ability to self-serve and enable them to achieve a better and faster service in the future where this is both possible and appropriate.
- f) **Families & Communities Strategy:** Creates spaces for the community to interact and work together; supports the move to preventative approaches by facilitating the way the Council and its partners work, specifically: different ways of working across organisations; and working in the places where people are.
- g) **Joint Health & Wellbeing Strategy for Suffolk:** Helps people in Suffolk to have the opportunity to improve their mental health and wellbeing e.g. increasing the levels of physical activity, ensuring that health and social care services are integrated at the point of delivery and a focus on prevention including the promotion of healthy lifestyles and self-care.
- h) **Suffolk Transformation Challenge Award (TCA) Programme:** promotes the objectives of TCA in terms of integration and demand management in public sector practices. The Hub project received TCA funding in its early stages.

- i) **Suffolk Growth Strategy and the West Suffolk Six Point Plan for Jobs and Growth:** For instance, supports our market towns, ensuring the right conditions for growth and developing skills. The Hub is being provided on the closest available site to the town centre, and users will be encouraged to combine visits (see (j) below).
- j) **Forest Heath District Retail and Leisure Study 2016:** Study highlights the positive opportunity created by any relocation of the swimming pool in terms of supporting new retail development and strengthening the town centre. Survey work for the study also highlighted a desire among some visitors to the town centre for better quality leisure facilities as part of any future plan for its improvement.
- k) **Adopted and emerging planning policy:** Specifically, the Development Brief for the Mildenhall Hub adopted in 2016. The Hub is also a key part of any infrastructure provision for the town, now and in the future.
- l) **West Suffolk Sports Facilities Assessment:** The facilities mix for the leisure elements have been established with reference to this recent study, prepared with Sport England.
- m) **RAF Mildenhall Vision and Prospectus:** See next section.

5. Drivers for Change and Success Criteria

(The following section is a short summary of information already addressed in the original business case – see background papers above – and approved by Forest Heath councillors in earlier stages of the project. It is re-provided here for ease of reference in terms of scrutinising the financial estimates for the Hub in their corporate and strategic context.)

- 5.1 The first phase of the Mildenhall Hub Project is primarily an investment primarily aimed at improving and securing the future of the **existing** public estate in the town; to meet the current demand for services from residents in Mildenhall and the surrounding area. This investment is needed now because many of the public sector buildings in Mildenhall are either reaching the end of their design-lives, are either too large or too small for likely future needs and/or are in need of complete refurbishment or replacement. This makes the estate extremely inefficient and increasingly unaffordable, diverting money from frontline services (and/or putting them at risk). FHDC has already made a commitment in its capital programme to replace the swimming pool and will also need to invest in the district offices. The Government has recognised the poor condition of the Bury Road campus of Mildenhall College Academy through its eligibility for refurbishment/replacement under the Priority Schools Building Programme (PSBP).
- 5.2 These diverse public facilities are currently spread around the town, occupying around 18 hectares. This wide distribution of assets is a common story across the country. Like the Government, the partners recognise that it is increasingly inconsistent with the changing landscape of public service

delivery and puts pressure on reducing public sector budgets. Therefore they are looking now for a model of public estate management in Mildenhall which fosters collaboration and community identity, and capitalises on new technologies, both in building design and information technology. In particular, the partners feel that any opportunity to reconfigure the public estate to deliver improved outcomes in skills, educational attainment and health should be taken.

- 5.3 Although the scheme is proposed to meet current needs, it is also being designed with sufficient room to grow as the town and surrounding villages evolve in years to come. Such future expansion, if required, would be funded by developer contributions or through separate business cases and is likely to require separate planning consent.
- 5.4 The future of RAF Mildenhall is not yet known and, in any event, it would not be possible to wait until the mid-2020s to address the current condition of the public estate on behalf of existing residents and taxpayers. Nonetheless, the Hub will complement any plans that emerge for the airbase, and would have flexibility to accommodate some of the expansion in the more centralised infrastructure that might be required (alongside any that may be needed within any new development itself) e.g. secondary education, library, health centre and leisure.
- 5.5 There were a number of required benefits and outcomes from the Mildenhall Hub Project which were defined as success criteria for the project in the original 2014 Business Case, alongside an assessment of the current sites and an evaluation of 12 different options for change. These aligned with the objectives of the Government's One Public Estate (OPE) Programme, listed below:
- Create economic growth – to enable released land and property to be used to stimulate economic growth, regeneration and new housing.
 - Generate capital receipts – to release land and property to generate capital receipts.
 - Reduce running costs – to reduce the running costs of central and local government assets.
 - Deliver more integrated and customer focused services – to encourage publically funded services to co-locate, to demonstrate service efficiencies, and to work towards a more customer focused service.
- 5.6 One of the main local success criteria for the project, and one that links directly to asset management, is that it delivers reduced running and maintenance costs for all partners, namely by reducing the footprint of the public estate buildings in Mildenhall by around 20% to ensure there is less inefficient/under use of space. This will also be achieved by occupying a modern building, as opposed to a building at the end of its shelf life, as well as sharing some services, such as reception, plant, parking, etc. Achieving this objective is essential if the cost of providing local facilities in Mildenhall, particularly leisure services, is to remain affordable for the taxpayer.

- 5.7 It is also important that the revenue costs are sustainable over the full life cycle for the project, which in turn will have a positive impact for the tax payer. In order to deliver this, there will be the potential to gain capital receipts from the sale of land no longer required by the partners. This released land will help to stimulate economic growth, regeneration, new housing and jobs in Mildenhall.
- 5.8 The Hub must also improve and widen existing local public services for the community by offering efficient and effective service delivery through co-location and joined up public service delivery. This is about more than just ensuring the project is successful as an asset management exercise. This criterion involves ensuring there are benefits and genuine improvements for local residents through the services that they receive and the facilities they can use at the Hub. Services need to be integrated and customer focused and it is important that the Hub increases user satisfaction and service performance, as well as community resilience and engagement.
- 5.9 *Put simply, there is no 'do nothing' option and the Hub partners believe that, if a large amount of money is to be invested in the public estate in Mildenhall, it should be done so in a manner which seeks to minimise that cost to the taxpayer but, at the same time, maximises the benefits for local people, and results in new and innovative facilities which will among the best in the country.*

6. **Financial Assessment**

N.B. It is important to read this section in the context that financial information is still being refined as the design process continues and a more accurate estimate of costs will be provided for councillors in February 2017. This report is to allow scrutiny of the basic funding model ahead of those final decisions.

6.1 **Methodology and assumptions**

- 6.1.1 The 2014 business case looked at 13 different options for the public estate in Mildenhall, including the status quo, and compared their relative merits. The feasibility and advantages of a single Hub emerged from that work. The preferred option now being taken forward, identified in the 2016 update to the business case, is a hybrid of two of those options (a new build at Sheldrick Way with the retention of the existing sixth form). The size of the Hub has also been reduced from the facility proposed in the original 2014 document following value engineering and better data on future requirements.
- 6.1.2 In February 2016, the capital cost of the FHDC elements of the project was estimated to be up to £20m (excluding renewable energy). There is reason to believe at the time of writing this report that this figure is still achievable, but this is dependent on the refinement of the designs that will occur before the planning application, including any changes which emerge from the pre-application consultation in the new year. So, for the purposes of this scrutiny report on sources of funding, this original figure of £20m continues to be used, on the basis it will be refined in February 2017 when a final decision is made. In addition, to allow FHDC to assess the value offered by this scheme, a baseline position is also required i.e. what will FHDC spend if we maintain the status quo? This comparison will need to be made over a 40 year life cycle for either scenario, which obviously requires some basic assumptions in both cases.
- 6.1.3 Furthermore, in making the comparison, it is important also to confirm some of the assumptions and partnership principles previously agreed by FHDC between 2014 and 2016, as they have an effect on the estimated cost to FHDC. For the reasons explained, some of these adopted principles and assumptions mean that the projected cost of the Hub to FHDC presented in this report could still fall as the project progresses.
- 6.1.4 In no ranked order of importance, the principles/assumptions are as follows:
- a) The estimates of capital costs are based on a Royal Institute of British Architects (RIBA) Stage 2¹ Concept Design as at December 2016. This is subject to pre-application consultation which would shape the RIBA Stage 3 Technical Design which would then form the basis of a planning application in 2017. The costs are also prior to any further value-engineering by the partners if this is needed.

¹ *The RIBA Plan of Work 2013 organises the process of briefing, designing, constructing, maintaining, operating and using building projects into a number of key stages, and is the national standard. Stage 3 is a developed design, and Stage 4 a technical design. The planning process normally overlaps with Stages 2-4, depending on the scheme. Stage 5 is construction and Stage 6 handover.*

- b) As it is already in public ownership, it is assumed there will be no new land acquisition costs for FHDC or other partners in relation to the additional land adjacent to Sheldrick Way. However, as previously authorised by Cabinet in 2013, FHDC will swap land at Outfall Cottages, Newmarket with SCC as part of the land acquisition for the Hub project (subject to covenants on both sites).
- c) All occupying partners will need to sign a Funding Agreement before any planning application is submitted, which commits them to their defined share of the costs. The Funding Agreement will define the tenure arrangements for each partner and the working assumption is that FHDC and ATT will act as the landlord for the facilities on the site, with all other partners as tenants. However, other partners are able to request the landlord role in the Funding Agreement. The landlord may also choose to subsidise the rent of a tenant if it wishes (if State Aid compliant and where this fits with the landlord's own strategic or operational requirements). This does not preclude a different community ownership model emerging in the future when the Hub is safely established.
- d) Notwithstanding (c) above, the 'user pays' concept will apply to the capital cost of providing exclusive operational spaces (and their associated overheads) e.g. the controlled school area will be funded by the Academy (ATT), the library will be funded by Suffolk County Council, etc. FHDC's own exclusive operational spaces are explained in the later sections of this report.
- e) To ensure deliverability, the local authorities will need to assess these initial estimates on the worst-case financial scenario of also underwriting most of the capital cost of the central and shared infrastructure in the new Hub building. However, it is expected that some of this cost will be shared with some of the other partners, or be eligible for external grants, when the final budget for the Hub is determined in 2017/18. Some assumptions about the target level of external funding are made in this initial model to assist scrutiny.
- f) Under Education Funding Agency (EFA) rules, ATT will not be funded to provide the costs of any off-site infrastructure e.g. highways improvements.
- g) FHDC will also cover, as landlord, the capital cost of operational elements required by Abbeycroft, the CAB and DWP. As with all other council leisure facilities, Abbeycroft will operate the leisure centre as FHDC's agents. The CAB and DWP office requirements are so small (fewer than 10 desks/reception points in total) that it will be easier for FHDC to recover this capital cost through their rent.
- h) Tenant partners will be able to invest capital in return for a long-term rent-free period (although they will still pay their share of occupation and maintenance costs – see (j) below). Partners will not be able to recover their capital investment if they surrender their lease early. This arrangement can be pro-rata i.e. a full investment will result in a peppercorn rent; a 50% investment will result in a 50% rent subsidy. The rent-free period will be linked to an assessment of the design-life and/or planned maintenance cycle of the new building and will enable the partners (and the taxpayers funding them) to achieve the same outcome

as building their own standalone new building. It also gives them the certainty of tenure required for their initial investment. This important principle, agreed in the earlier business case, is essential to allow (and incentivise) partners to join the Hub project on a fair and cost-effective basis; FHDC's role in the Hub project is not commercial, but as an enabler of the community benefits. *Most of the relevant partners are currently indicating a preference for this option.*

- i) Alternatively, if they do not have capital to invest, and to assist with the coordination of the project, FHDC will be prepared to borrow on behalf of other partners to cover their share of the capital costs, provided that the partners enter into a contract (and long-term lease) to enable FHDC to recover the cost and risks of this borrowing in accordance with its Medium-Term Financial Strategy. This will mean that the FHDC taxpayer will not subsidise the other partner and vice-versa.

On the basis of (h) and (i) above, this report focuses on FHDC's own elements of the Hub only because the funding of other elements of the Hub will be cost-neutral to the Council. When the funding agreement is approved in February 2017, however, councillors will be advised of FHDC's total borrowing requirement, including the cost of any facilities provided for other partners.

- j) Irrespective of the Hub's ownership, all of the Hub occupiers will share its running costs, including maintenance, on a fair 'user-pays' basis.
- k) The project, like all others, will be considered on the basis of the West Suffolk investment framework principles to cover any borrowing requirements. However it should be noted that (as explained in this report) the project is more complex than a normal 'commercial' investment decision, as it is about delivering core services, meeting strategic objectives and addressing asset management issues.
- l) Although mentioned later in this report, there will also need to be a separate business case (not possible until 2017 when design is more progressed) to determine FHDC's investment in renewable energy for the site (fully or partly with other partners). This business case will need to demonstrate as a minimum that the additional capital cost can be recovered in accordance with the Council's MTFS. However, early indications are that there is potential for renewable energy to provide an additional return towards the overall cost of providing the Hub. As such, the estimated capital and revenue costs shown for FHDC's operational elements are in relation to a predominantly conventional energy supply.

6.1.5 Having established these general principles, it is now possible to look at the various elements of *phase 1* of the Hub applicable to FHDC and the economic case for each individually. At this scrutiny stage, however, it is only possible to establish a *target position* in relation to each specific element because some information is still awaited for reasons outside of the control of FHDC. There should be more clarity over the ability to hit this target position by the time the Cabinet and Council (i.e. all councillors) make a final decision in February 2017.

6.1.6 The information still to be confirmed includes funding decisions by third parties and, as a result, the budgetary position for FHDC shown below is

provisional in some instances. More third-party funding than is targeted may be obtained, and these figures may improve further.

- 6.1.7 It is also important to note that the funding model focuses on direct costs and benefits of the Hub. While hard to quantify at this stage, experience shows that the Hub (and the vacated sites it creates) will create a platform to deliver further direct and indirect savings over its lifetime e.g. the ability to work differently with partners in shared facilities.

6.2 Renewable Energy

- 6.2.1 As explained above, a separate business case will be prepared for the installation of renewable energy at the Hub and the *cost* estimates in the following sections of this report do not include provision for this additional cost. This will be dependent on information in the submitted technical design and also advice from central government in relation to eligibility to join national programmes for district heating systems.

- 6.2.2 Nonetheless, the work to date suggests that the Hub has significant potential to incorporate extensive established and new renewable technologies (over and above a focus on passive measures such as insulation in the main construction). Areas being considered are as follows:

- (a) Ground source heat pump
- (b) Gas-fired combined heat and power
- (c) Solar PV
- (d) Battery energy store
- (e) District heating.

The potential for anaerobic digestion will also be considered in the detailed design stage.

- 6.2.3 The additional cost of these items is significant; likely to be between £2m and £4m depending on the choice of technologies and the ability to attract external funding. However, the return from this investment is likely to be significant for the Hub site as a whole, given its high energy demand (principally the swimming pool). Initial estimates of gross savings compared to conventional technologies are over £300,000 p.a. (to be shared between all of the Hub uses, not just FHDC). Under the Council's MTFS, this rate of return (likely to be over 10% gross) would justify an additional and self-contained investment in this element of the project. Furthermore, any net surplus generated after the cost of borrowing and running costs by FHDC could contribute towards the overall cost of delivering the Hub project. So that the draft financial model in this report reflects this potential, a provisional contribution is shown in section 6.4 for indicative purposes. However, this is subject to change when the business case for renewables is prepared.
- 6.2.4 To take this forward, the report to councillors in February will propose that delegated power be approved to allow the Cabinet and officers to sign off an additional investment in renewable technology at the Hub, subject to that investment complying with the terms of the Council's MTFS.

6.3 Offices and Central Infrastructure

What is being provided by FHDC in the Hub (and why)?

- 6.3.1 This is the element of the Hub which joins all services together, and enables the full concept of a single and integrated building to be delivered. It is also where a range of new and/or improved facilities will be provided, which is why, like the leisure centre, it is a strategic investment by FHDC, partners and external funders in the local community and in improved outcomes and new opportunities. This is what is often called 'place-shaping' and is a key leadership role of the local authorities in this project, looking at the 'bigger picture' of what the area needs as well as their own operational requirements. It also continues the work undertaken by public bodies in West Suffolk over many years to share buildings and integrate services (including by FHDC in Mildenhall e.g. the Dome and College Heath Road).
- 6.3.2 However, as can be seen below, this element of the Hub also replaces a range of current buildings in Mildenhall, including the Council's own College Heath Road offices which are under-utilised by the standards of the Council's office accommodation plan. In this context, there is also a strong argument in asset management terms for investing in this element of the Hub.
- 6.3.3 In terms of the newly built space which will be the responsibility of FHDC to provide, this element of the Hub could be up to 2500m² in the final designs (although this may reduce as areas are reapportioned between partners and further design refinement takes place), and will include:

	Facility	Shared with
1	Shared office space – for FHDC, this is room for around 70 desks of its own and a share of the associated small meeting rooms, staff areas, etc. (including councillor facilities)	<ul style="list-style-type: none"> • Suffolk CC • DWP • CAB • NHS • Emergency Services
2	Shared public meeting space – large community/assembly hall, council chamber and a range of small to medium meeting rooms	<ul style="list-style-type: none"> • MCA • Community • All Hub occupiers
3	A portion of the shared public atrium space - FHDC elements: reception area, café, public toilets	<ul style="list-style-type: none"> • Community • All Hub occupiers
4	Central plant and infrastructure - site kitchen, ICT and central plant room*	<ul style="list-style-type: none"> • All Hub occupiers

****NB:*** *although the plant room is physically located in this element, most of its cost will need to be nominally attributed to the leisure centre in the funding model given the demands of the swimming pool.*

- 6.3.4 In addition to the built area, any FHDC costs for this element of the Hub will also include a pro-rata share of the public areas of the site (access roads, footpaths, parking and plaza areas) and also a small service yard for grounds maintenance and street sweepers. The costs of any Section 106

requirements (e.g. off-site highways and footpath works) are hard to predict ahead of the formal planning process, but some allowance for these items will also be included in the final financial model in February 2017.

How does it compare to what is being replaced?

- 6.3.5 In terms of floorspace, it is hard to make a direct comparison between this element of the Hub and the current College Heath Road offices, for two reasons:
- FHDC shares its current offices with other partners (Suffolk County Council, NHS, CAB, DWP, ACAS and Abbeycroft) whereas the share of the office space shown in the table above (i.e. item 1) is largely for FHDC only; and
 - some of the space in the Hub is for 'new' facilities (e.g. café, kitchens, etc) and/or will be shared with a new range of partners (e.g. the main hall and plant room) so there isn't really a current equivalent.
- 6.3.6 Nonetheless, it is worth recording that the current College Heath Road offices are 3280m² and that FHDC directly occupies around 70% of this space itself as offices (around 2300m²). Therefore, even with its additional facilities, FHDC's share of this central element of the Hub is still similar in scale to the current FHDC office accommodation in Mildenhall. Furthermore, if the new and additional elements are excluded for comparative purposes, FHDC's office provision in the Hub would be around half the size of what is being replaced.

What will happen if this element of the Hub is not built?

- 6.3.7 If this element of the Hub is not built the chance to have an innovative and integrated building with additional facilities and services for the community will be lost – the central atrium area is what links together the Hub and makes the concept work. The ability to share facilities and costs with other services would also be lost, meaning duplication and wasted expenditure for the taxpayer in general. However, these are largely opportunities lost and, for the purposes of purely financial scrutiny, it is more tangible to focus on the current buildings when attempting to envisage alternative asset management scenarios.
- 6.3.8 In that context, there is no 'do nothing' option to compare the Hub against. The College Heath Road offices will not be fit for purpose as public buildings for much longer; they are reaching the end of their design life and in need of a large refurbishment and upgrade to meet modern ICT, energy and accessibility standards (there is, for instance, no lift) and provide the flexible and efficient working envisaged in the Council's office accommodation plan.
- 6.3.9 In reality, were the Council now to want to abandon the full Hub concept and commit to stay at College Heath Road for the long-term future, a major refurbishment would be likely to be proposed. Not least to convert some of the surplus space to make it lettable to more third parties. Refurbishing buildings is not a cheap option. In their 2014 business case, Concertus estimated that a full refurbishment of the existing building to modern

standards could cost approximately £3.65m. However, this would be for an optimal solution. A more basic refurbishment, retaining the current constraints of the building, could be undertaken instead. As a guide, the current estimate of the basic refurbishment and maintenance required in the next five years in the building is £1m (which, while it is included in the Asset Management Plan, is currently unfunded and awaiting a decision on the Hub). This lower comparator figure will therefore be used in the financial model below so that there is not the risk of an over-inflated baseline to inform decision-making. However, it should be noted that this would be a very basic refurbishment.

- 6.3.10 Although not suggested as an alternative, even if a completely new standalone office building were to be built for FHDC's needs (i.e. no sharing), then this might still cost up to £3m, assuming that there was no land acquisition cost. It could be much smaller (perhaps a third of the current size) and therefore cheaper to run, but it would still duplicate facilities in public buildings elsewhere in Mildenhall, and be unable to benefit from features of the Hub such as district heating.
- 6.3.11 Another factor to consider in retaining the current offices is that the chance to redevelop the site would be lost. Although there are a variety of models for achieving this, to provide a fair comparison between the status quo and the Hub, the financial model in this paper only takes into account the capital receipt that might be achieved by selling the vacated site in the conventional manner.

What is the baseline cost against which to compare the Hub?

- 6.3.12 Accepting that is not necessarily a like-for-like comparison between facilities (**see 6.3.5 above**), the only baseline we can use for this element of the Hub is the Council's current offices at College Heath Road. We have good data on these running costs, adjusted for the occupation of third parties. Similarly, we can estimate the costs of staying in the building in terms of future maintenance expenditure, based on what we know from West Suffolk's portfolio of buildings.
- 6.3.13 The comparative 'whole-life' costs of both the 'status quo' option and the Hub can be modelled over 40 years, to reflect a reasonable assumption about the period to the first complete refurbishment of the new building. It is also worth highlighting that neither scenario includes the effects of inflation, since the purpose of the model is to compare two different investment options on a level playing field.
- 6.3.14 Similarly, certain other assumptions and exclusions are applied to the model for comparative purposes. The cost of central recharges (finance, property services, health and safety) is excluded from current and future estimates (since these are determined by other factors and apply to both scenarios), as is the provision the Council must make in its accounts for depreciation. The cost of ICT is also excluded (since this is recharged separately in the Council's budget and will be incurred in any scenario). This leaves the genuine property cost of the two buildings to allow a proper asset management comparison.

- 6.3.15 As with normal council budgeting, we also need to make some assumptions about maintenance costs. In addition to the immediate maintenance backlog of £1m (held in abeyance pending a decision on the Hub), the model also needs to take into account planned maintenance over the 40 year period. Since there is no way of estimating accurately over that period, the baseline model therefore allows a standard:
- capital programme provision of 0.3% of insured value (£7.2m) p.a. for periodic maintenance of an ageing building; and
 - a revenue budget allowance for routine maintenance of 1% of insured value.

What will the central element of the Hub cost to build?

- 6.3.16 At this stage of the design process, and within the overall budget estimate of £20m, the capital cost of this element of the Hub is provisionally estimated as *up to* £6.5m (based on an assumption that around two-thirds of the cost of central plant would be allocated to the leisure centre).
- 6.3.17 This is based on estimates prepared by the design team from the initial designs that are subject to pre-application consultation in the coming weeks. They have used standard building industry benchmarks, certain assumptions (explained below) and what is already known about the overheads associated with available procurement frameworks. As with any construction project, until planning and procurement is completed it is not possible to guarantee an initial capital budget, and changes to the design may arise from internal and external consultation in any event. These estimates may, therefore, change before councillors consider the funding model in February 2017 and afterwards, as the project evolves. Nonetheless, they provide enough information to develop an initial funding framework for the project.
- 6.3.18 In addition to the design team’s final estimates, the Council will make the following adjustments to the financial model to reflect local considerations:
- Some elements of the landscaping for the council facilities may be delivered in-house by West Suffolk councils meaning that overheads (e.g. preliminaries and profit) can be reduced accordingly.
 - The cost estimates make standard assumptions about fit-out, whereas in reality all of the Council’s existing ICT equipment, its server and some of its furniture will be moved between buildings, and surplus furniture will be sold. Desk-top ICT equipment, for instance, costs £500 per desk. A conservative estimate of savings would be £55,000.
 - Similarly, the Council will assume that a third party catering operator will fit-out the kitchen and café.

What will the Hub cost to run?

- 6.3.19 Although there are national benchmarks for the property running costs of new buildings, these are not prepared in a manner which allows an easy comparison with the current running costs of the Council’s offices.

Specifically, there are not benchmarks for integrated 'hub' buildings which have uses ranging from double-height atrium spaces to conventional offices. Furthermore, ahead of decisions on matters such as renewable energy and facilities management, it is not possible to make really detailed estimates in any event. For those reasons, it is proposed that the Council uses a local benchmark for calculating the likely comparative cost of the office and central elements of the Hub at this stage of the project.

- 6.3.20 This local benchmark is West Suffolk House (WSH) in Bury St Edmunds, a modern shared council building opened in 2009. West Suffolk House is considerably larger than what is proposed for this element of the Hub but it will be managed in a similar fashion. Pro-rata, its facilities are also directly comparable and, as shown below, it could act as a reasonable proxy for the central element of the Hub (i.e. excluding the school and leisure centre):

West Suffolk House	Mildenhall Hub
Office space with break out areas and small meeting rooms and staff facilities	Office space with break out areas and small meeting rooms, and staff facilities
Operational elements (CCTV control room, youth facility)	Operational elements (health centre, emergency services, soft-play, etc)
Conference Room	Multi-purpose hall
Meeting/training rooms	Meeting/training rooms
Large shared reception	Large shared reception
Café and kitchen	Café and Kitchen
Small Library point	Public library
Public toilets	Public toilets
Councillor facilities	Councillor facilities
FM & ICT facilities	FM & ICT facilities
Visitor and staff parking	Visitor and staff parking

- 6.3.21 As elsewhere in Suffolk, the running costs of the whole building are divided between users, as they will be at the Hub. This is done at WSH by way of a standard 'desk occupation charge' which covers the cost of the space each user exclusively occupies and its share of the running costs of the shared facilities (reception area, meeting rooms, visitor car park, etc). As the joint landlord of the building, St Edmundsbury also incurs some central costs which are partly recovered through rent from tenants.
- 6.3.22 The net cost to SEBC as landlord for each desk at WSH is £2310 p.a. This covers all internal and external running costs except ICT, and includes insurance, facilities management and maintenance contributions, rates and utilities. For the purposes of this exercise, it is therefore proposed to use this benchmark to estimate FHDC's share of costs at the Hub, applied as a cost per desk. This is not necessarily what other Hub occupiers will pay – as at WSH, they may also pay a rent to cover the landlord's risks and liabilities. As the Hub will operate on a cost-recovery model, these desk charges and rents from third parties (with two exceptions – **see 6.3.23 below**) are not included in this model as they should be cost-neutral to the FHDC taxpayer.

- 6.3.23 Notwithstanding the above, the capital and revenue cost of providing the very small amount of shared space for the DWP and CAB is included in the FHDC estimates. This will be recouped through a rent/desk charge. Although this will require separate negotiation, an indicative (and conservative) estimate of rent is therefore included.
- 6.3.24 It is also assumed for the purposes of the model that the operators of the café, kitchen and soft-play will meet the direct running costs of these facilities.

Sources of funding available for this element of the Hub

- 6.3.25 As previously reported, the Hub will be funded through a mixture of capital receipts, external grants and borrowing. It is also important to take into account what will be spent in any event if nothing changes.
- 6.3.26 In the case of the central and office elements of the Hub, all or some of the following capital funding is likely to be available (some of which have been explained in more detail in the preceding paragraphs):
- (a) a capital receipt from College Heath Road – an estimate of the value at this stage is that identified by Concertus in 2014 (around £1.25m for the FHDC portion of the site);
 - (b) the unavoidable initial and long-term maintenance liability which otherwise would be required at College Heath Road over the next 40 years;
 - (c) the investment of third party operators in the fit-out of specific areas;
 - (d) the Hub project is being supported by FHDC and SCC not only in their respective operational capacities, but also strategically as local authorities. The Hub will help both authorities to achieve their strategic priorities for the local community in West Suffolk and also the One Public Estate outcomes referred to in **paragraph 5.5** of this report. In this context, in addition to funding its own operational elements, SCC has accepted the principle of jointly underwriting with FHDC the cost of future-proofing the central and off-site infrastructure for the Hub. For the purposes of this initial model, a maximum capital contribution by SCC to the central elements of the Hub is included within a provisional estimate of combined third party contributions (although it may be treated differently in the final funding agreement, with the same net effect);
 - (e) similarly, given the benefits in terms of supporting the skills agenda, providing infrastructure needed to support the long-term prosperity of the area and releasing sites for regeneration, it may be possible to seek additional regional or national funding for the Hub (e.g. LEPS); and
 - (f) if the Academy receives sufficient funding from government for its own elements, it may wish to share the cost of investing in some of the central infrastructure at the Hub and jointly own and manage it with FHDC.

- 6.3.27 As can be seen there is still a degree of uncertainty over some of the above items, particularly third party contributions. At this stage, ahead of the final funding agreement with partners, and with some outstanding funding applications, a target figure of £3.5m is included for combined third party contributions.

***Financial summary for this element of the Hub
(December 2016 provisional estimates)***

6.3.28 Estimate of Capital Requirement

Description	£
Construction Cost (Est)	6,500,000
Capital receipt from College Heath Road (CHR)	-1,250,000
CHR Initial Maintenance Liability	-1,000,000
40 Year CHR Maintenance Liability	-900,000
Investment by Caterer in kitchen and café fit-out (TBC)	-350,000
Combined third party contributions (Est)	-3,500,000
Carry Forward to Other Elements (see 6.4.25)	-500,000

6.3.29 Estimate of Annual Revenue Requirement

Description	£ p.a.
Borrowing costs	N/A
Estimated Hub running costs	161,700
Current budgeted office accommodation costs (saving)	-227,250
Rents (income)	-15,000
Carry Forward to Other Elements (see 6.4.26)	-80,550

- 6.3.30 As can be seen above, this element of the Hub is likely to be self-funding in asset management terms and, in fact, capable of providing a contribution to the Council's major community investment in the project, the leisure centre. In that context, it can be seen as an 'invest to save' proposal for the taxpayer, and a strong investment on behalf of the community in terms of the uplift in the facilities and improved services and outcomes.

- 6.3.31 This situation applies in relation to:

- *capital*, where the Council can cover the cost of providing its new office accommodation from capital receipts, avoided liabilities at College Heath Road and through sharing the cost of the new additional elements in the Hub with third parties;
- *revenue*, where a small saving on net running costs should be possible, given that the new facilities are smaller and will be more efficient, and some of the new elements will be run by third parties.

6.4 Leisure Centre

What is being provided by FHDC in the Hub (and why)?

- 6.4.1 This is the element of the Hub which combines and upgrades three existing facilities into one new leisure centre; a centre which can be shared with the school, integrated with other services, specifically the health centre, and has room to grow in the future if needed. As with the office accommodation, there is not just a solid asset management argument for replacing some of the facilities but also a strong 'place-shaping' case for a strategic investment in the local community and in improved outcomes (not least unlocking improved school facilities by allowing the Academy to focus limited government funding on teaching facilities). Specifically, in the case of the expanded swimming provision, it would also be a forward investment in the long-term needs of the area (because there is not an easy or cost-effective way to increase this capacity later on, unlike with 'dry-side' facilities).
- 6.4.2 In terms of FHDC owned facilities, this element of phase 1 of the Hub is likely to be approximately 3700m² and include:

	Facility
1	Swimming <ul style="list-style-type: none"> • Main pool: 6 x 25m lanes • learner pool • Viewing area for 90-100 people
2	Sports Hall
3	Gym
4	2 x Fitness Studios
5	3G Artificial Pitch and space for additional grass pitch if needed
6	Soft-play facility

Phase 1 is very much intended to meet the current needs of the community. However, it will be designed to allow future expansion of the 'dry' leisure facilities, with ability to increase the size of the sports hall from 4 to 6 badminton courts and add other studio, gym or racquet sports space if needed, funded by developer contributions. The external areas of the Hub (within the boundary defined in the Development Brief) will also include space to add additional pitches if the capacity available on the new 3G pitch and school playing fields is not sufficient.

- 6.4.3 In addition to the built area, any FHDC costs for this element of the Hub also include a pro-rata share of the public areas of the site (access roads, footpaths, parking and plaza areas), any informal parkland areas in the Hub and a contingency for any off-site works such as highways improvements.

How does it compare to what is being replaced?

- 6.4.4 The proposed scale and facility mix of the leisure facilities at the Hub are determined with reference to the recent assessment of current identified need. Given the smaller scale and the condition of the current facilities, the Hub therefore offers a considerable improvement for the local community. Not only will the new facilities be in a single, modern building, integrated with other facilities, but their extent and/or quality will be greater:

- the main pool will be 50% larger, with a better viewing area;
- there will be a learner pool for the first time (with a moveable floor to assist accessibility if funding allows);
- the main sports hall, gym and studio facilities will be improved;
- the artificial pitch will be upgraded to '3G' allowing the potential for competition level football and/or rugby to be played on it;
- a larger and better soft-play facility will be included, accessible from the central atrium;
- there will be a small ancillary café for centre users (close to the viewing area for the pool) as well as the chance to use other facilities in the Hub as well; and
- there will be scope to increase 'dry-side' facilities in the future.

6.4.5 Subject to the final design, the floorspace of the leisure facilities is likely to be over 1000m² (and close to 50%) larger than at present, with space to grow, if needed, by a further 500m² in the future.

What will happen if this element of the Hub is not built?

6.4.6 If this element of the Hub is not built the chance to have an innovative shared building, with additional leisure facilities and services for the community, will be lost. The Hub also offers the chance for leisure facilities in Mildenhall to cover their own direct running costs and even generate a small surplus over time. This is particularly critical at a time of increasing pressure on local authority finances and a need to reduce the management fee paid to Abbeycroft further; putting aside their operational limitations and capacity, the cost to FHDC of funding leisure facilities in Mildenhall on split sites (duplicating staff costs) and in old and inefficient buildings is not likely to be sustainable in the long-term.

6.4.7 As before, however, the baseline model ignores these opportunity costs and looks only at the direct asset management implications. In that context, there is again no 'do nothing' option against which to compare the Hub. The sports hall and gym are both in buildings approaching the end of their design lives which require investment. In the case of the sports hall, the Dome is not owned by FHDC and, were the Hub project not to proceed, future taxpayer investment in it (or a replacement) would be the responsibility of the Academy to secure, with no guarantee of what could be afforded and when. To maintain community access, however, it is certain that FHDC would need to continue to pay a grant to the Academy.

6.4.8 The gym is located at the Council's offices. Therefore, this is covered by the baseline refurbishment cost outlined in the previous section of this report. Nonetheless, the facility would also continue to require a subsidy from FHDC.

6.4.9 The main asset management impact to consider in terms of the status quo is the swimming pool. The condition of this building is such that FHDC has already made provision of over £3m in its capital and maintenance programmes for a major refurbishment, and this cost will not be avoidable if the Hub does not proceed and the Council wants to commit to maintain access to swimming in Mildenhall (which it does). To achieve such a

refurbishment, the pool would be closed for many months and, when finished, it would still be too small to meet the currently assessed needs of the local community (since the site cannot be increased in size). It would also be difficult to achieve the required savings in energy costs which make up such a large part of the subsidy of any swimming pool (and achieve the environmental benefits).

- 6.4.10 Another factor to consider in retaining the current pool is that the chance to redevelop the site would be lost. In capital terms, as the site is small it was only valued at around £100,000 in the 2014 business case. However, given the site's proximity to other shops and the availability of existing parking, it could potentially be attractive to retailers and form a key and complementary part of any wider town centre masterplan.

What is the baseline cost against which to compare the Hub?

- 6.4.11 Accepting that is not a like-for-like comparison between facilities (**see 6.4.4 above**), the only baseline we can use for this element of the Hub is the Council's current leisure costs in Mildenhall and the likely costs of trying to keep the existing swimming pool open.

- 6.4.12 As with the office facilities, comparative 'whole-life' costs of both the 'status quo' option and the Hub can be modelled over 40 years. However, reflecting its age and operational nature, a higher maintenance contribution is modelled. In addition to the immediate maintenance backlog (held in abeyance pending a decision on the Hub), the 40 year model also allows for:

- capital programme provision of 0.3% of the insured value of the swimming pool (£2.4m) p.a. for periodic maintenance of an ageing; and
- a revenue budget allowance for routine maintenance of 1.3% of insured value (using the construction cost of the whole leisure centre at the Hub and the insured value for the current pool).

- 6.4.13 As explained in section 6.3 above, certain assumptions and exclusions have been applied to the model for comparative purposes.

What will the leisure centre cost to build?

- 6.4.14 Subject to the same qualifications explained in **section 6.3 above**, the capital cost of this element of the Hub is currently provisionally allocated as up to £13.5m of the £20m total estimate. This sum reflects the economies of building the facility as part of a shared hub, with some of the central facilities used by the leisure centre (e.g. reception, café, etc.) included in section 6.3 above.

- 6.4.15 Specific to the leisure facilities, the Council assumes it will pay for the initial fit-out of some elements of the leisure facilities, as this is more cost effective for the taxpayer (via reduced management fees) and reflects the existing arrangements at other council buildings.

What will the leisure centre cost to run?

- 6.4.16 Although the Council will retain maintenance responsibilities (as now), the leisure provider will meet the direct running costs of the leisure centre at the Hub as part of their licence to occupy (as now). The gap between these costs and the income the provider can generate is currently covered by the management fee i.e. the level of subsidy required. Abbeycroft has received independent advice of its own to calculate the likely costs and income of a new combined leisure centre in Mildenhall, reflecting national benchmarks and local demography. This modelling suggests a small surplus on Abbeycroft's direct costs can be achieved within five years. The current management fee for the pool and gym is over £170,000 a year.
- 6.4.17 This modelling for the management fee does not take into account the benefits from renewable energy, but it does factor in a saving for Abbeycroft in sharing a reception team at the Hub and income from the Academy for the use of the sports hall during the school day. This saving may need to be adjusted when the final design of reception areas and leisure centre accesses is known.

Sources of funding available

- 6.4.18 As previously reported, the Hub will be funded through a mixture of capital receipts, external grants, borrowing. It is also important to take into account what will be spent in any event if nothing changes.
- 6.4.19 In the case of the leisure elements of the Hub, the following capital funding is likely to be available (some of which have been explained in more detail in the preceding paragraphs):
- (a) a capital receipt from the existing swimming pool site – a prudent estimate of the value at this stage is that identified by Concertus in 2014 (around £100,000);
 - (b) the unavoidable initial and long-term maintenance liability which otherwise would be required at the pool over the next 40 years (assuming the existing building could survive that long);
 - (c) a *potential* grant from Sport England. The Hub is in a 'pipeline' of potential projects that Sport England is monitoring and advising upon, as it has a strong fit to national priorities and local need. As a result, it may be eligible for a capital grant, but we will not know this until early 2017 when a funding proposal for Hub is considered formally by Sport England. Other sources of sports funding may be available for specific elements of the Hub;
 - (d) given the benefits in terms of providing infrastructure needed to support the long-term prosperity of the area and releasing sites for regeneration, additional external funding will be sought for the Hub;
 - (e) if the Academy receives sufficient government funding it may wish to share the investment in some of the leisure infrastructure and jointly own it with FHDC; and

- (f) a contribution from the Council's Strategic Priorities and Medium Term Financial Strategy Reserve (financed from New Homes Bonus receipts from past housing growth) which recognises the project's strategic importance and its role in ensuring the Council is delivering cost efficient services for its taxpayers. The use of this reserve also recognises the up-front investment to ensure the leisure provision is fit for the future as well current need.
- 6.4.20 As can be seen there is still a degree of uncertainty over some of the above items, particularly third party contributions. At this stage, ahead of the final funding agreement with partners, and with some outstanding funding applications, a target figure of £1.5m is included for combined third party contributions from all potential sources.
- 6.4.21 Even after these inputs, there will still be a gap in the FHDC capital funding requirement for the Hub. This is explained by the fact that the facility is so much larger and also that an up-front investment is needed to provide the amount of swimming pool capacity the area is likely to need for the next 40 years (as there is only one chance to build it).
- 6.4.22 This funding gap will need to be closed by borrowing. Over 40 years, interest on this borrowing is assumed at 2.75% and the Minimum Revenue Provision (MRP)² at 2.5%. Giving a total cost of borrowing of 5.25%.
- 6.4.23 The cost of this borrowing can be supported by the savings that the Hub generates for the FHDC taxpayer set out in the following section. This includes an assumed contribution from renewable energy which is subject to the separate business case referred to in **section 6.2 above**. In this indicative model for scrutiny purposes, this is provisionally calculated on the prudent basis of a 3% *net* return on an investment by FHDC of £2m. In relation to the reduction in the Abbeycroft management fee, the figure used in the model is the position at year 5 (on the basis of it being an 'average' year in an indicative 40 year model, and an expectation of further growth in users).
- 6.4.24 The use of these savings in this manner (and the break-even position in the funding model for the Hub) is consistent with the Council's MTFs, in view of the unavoidable asset management requirements the Hub is addressing, and the strategic and local benefits it will provided for the community. It is also important to note that this funding model is focused only on the direct costs and benefits of the Hub, primarily in terms of running costs of the facilities themselves. Although hard to quantify at this stage, we know from other projects that further savings are likely to be achieved through co-locating with partners and making available new assets to the community, as this creates the ability to work differently with families and communities and reduce their demand on public services. There are also opportunities for partners themselves to benefit from economies of scale, and share support services, ICT, procurement, etc. Furthermore, there are likely to be additional benefits to the taxpayer from the sites that are vacated by the Hub.

² The Minimum Revenue Provision is a charge that Councils are required to make in their accounts for the repayment of debt.

**Financial summary for leisure centre element of the Hub
(Initial December 2016 estimates)**

6.4.25 **Estimate of Capital Requirement for Leisure Centre**

Description	£
Construction Cost (Est)	13,500,000
Leisure client advice	60,000
Capital receipt from Swimming Pool site	-100,000
Swimming Pool Initial Maintenance Liability (already in Capital Programme)	-3,250,000
40 Year Pool Maintenance Liability (not in capital programme)	-290,000
Council's Strategic Priorities and Medium Term Financial Strategy Reserve Up to	-3,000,000
Combined third party contributions (Est)	-1,500,000
Carry-forward of net capital requirement from central element of Hub	-500,000
Net Capital Requirement	4,920,000

6.4.26 **Estimate of Annual Revenue Requirement for Leisure Centre**

Description	£ p.a.
Borrowing costs	258,300
Budgeted building maintenance contribution at the Hub	143,000
Average net impact on Abbeycroft Management Fee (before renewables) (Est)	-223,000
Current budgeted building maintenance contribution for the Pool	-31,000
Grant for dual-use of the Dome	-35,500
Carry forward of revenue savings from Offices and Central Infrastructure at the Hub	-80,550
Contribution from renewable energy business case (estimate)	-60,000
Net Revenue Requirement	-28,750