

Appendix 1

External Assurance Review, Western Way Development – Recommendations and Action Plan

	Consultant's (i.e. Rider Levett Bucknall) Recommendation	Council's Assessment of Inherent Risk	Council's Response to Consultant's Recommendation	Action Required	Council's Assessment of Residual Risk	Timing
1	A revised financial model should be created for internal use only with greater visibility of wider cost inputs to allow a variety of scenarios to be tested. This would be separate to the existing financial model within the FBC.	Medium	Agreed. The model produced for the business case was designed for that stage of the project only. It is agreed that a different financial model should now be produced to assist the Council in its specific developer role, and in determining if the financial tests set by Council can be met. However, this model will not change the existing financial parameters set by Council for the project.	Produce developer financial model to support next stages of project.	Low	Jan 2020
2	There are no obvious alternative funding sources [to a PWLB loan] for the development and, as the risk of funding a negative cashflow position remains the greatest challenge to the long-term success of the project, it is recommended that alternative capital input routes continue to be explored. The option for partners to undertake a "land-for-equity" swap may be an option, as might their disposal of their sites with capital receipts ploughed into the development.	Low	Agreed. PWLB is still likely to be cheapest form of finance, but officers will continue to explore alternative capital sources, as per the Council decision in September 2019. It is already identified in the business case that partners could invest capital directly or seek asset 'swaps', and the MOUs with partners already require this to be examined under normal OPE principles where applicable. The Council has always had a strong preference for partners to invest their own capital.	Continue to explore alternative funding sources in the market and with partner organisations, in accordance with the adopted financial principles in the business case.	Low	Ongoing but to be clarified no later than award of final contract
3	The LEP indicated a willingness in principle to consider applications to support the development. If they could provide a level of support that reduced or removed the negative position or were able to underwrite any shortfall in the balance of repayments of the loan, that would remove the greatest risk to WSC on this project.	High	Agreed. It is unlikely that the Council will be able to pursue this course of action until there is greater clarity for the LEPs on the outcome of the next CSR.	Continue dialogue with LEP(s).	High	Ongoing but to be clarified no later than award of final contract
4	The main benefits of undertaking this project are set out in the Strategic Business Case. These are not significantly reviewed in the FBC nor has an attempt been made to quantify them. Consideration should be given to undertaking a Socio-Economic impact assessment to quantify the benefit to WSC and partners and the community they serve in undertaking this project.	Medium	Agreed. The Outline Business Case provided analysis of where these benefits would be found, and this was an integral part of the decision to proceed. However, it is correct that, other than some work on leisure outcomes, these impacts were not quantified as the aim in the Final Business case was for the project to stack up in terms of direct income and savings only. However, it was always expected that such analysis would be needed for external funding bids, particularly to the LEPs, and the Suffolk Office of Data & Analytics (SODA) may be able to assist in gathering relevant data.	Work with partners to develop a socio-economic impact assessment prior to any external funding bids being made, and commission support to do this from within existing budgets if necessary.	Low	April 2020 and then ongoing as required by funding bids
5	The process and timescales for obtaining approval for the relocation of NHS services should be investigated with partners together with developing an	High	Agreed. This is already a requirement of the Council's FBC approval and a pre-condition for starting any work on tender packs. Having funded specialist input to the	Obtain clarity on NHS processes	Medium	Jan 2020

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	understanding of any interfaces or restrictions on their ability to enter into lease arrangements during the consultation process. This should be combined with confirming the current level of involvement and support from regional NHS England office.		project to date, the NHS continues to lead the making of its own business cases to participate in the project. NHS partners are aware of the project timetable and are liaising closely with the Council.			
6	Commitment from partners to underwrite the design development costs of the areas they intend to occupy should be obtained by WSC prior to commissioning the next phase of work to avoid the risk of WSC being liable for abortive design fees in the event the leases are not taken up.	High	Agreed. This is already a requirement of the Council's FBC approval and a pre-condition for starting any work on tender packs. Work has already started with the partners to provide this clarity (see other sections of this report).	Obtain sign-up of public partners in respect of their phase 1 requirements and meeting abortive costs before work proceeds on tender packs, in accordance with existing Council authority.	High	Jan 2020
7	The project contingency is at the lower end of what would typically be expected at this stage of a project. This would normally be in the range of 5-20%. It is recommended that the contingency levels are reviewed.	Medium	Agreed. The cost plan currently has a 9% contingency plus other risks built into the estimates for certain packages. How these existing contingencies are presented in the financial model will be looked at. However, it is agreed that there is also a need for the Council to review the contingencies and safeguards that are already built into the existing model and then increase them if necessary, before proceeding to the next stage. In doing so, there would be no intention to increase the overall capital budget, but to find a way to accommodate this within the existing sum e.g. by making further Value Engineering (VE) savings.	Carry out a review of contingencies to incorporate in the new developer financial model but within the existing project budget.	Low	Jan 2020
8	It is normal for a developer to hold a developer's contingency of 5-10%, outside of the project contingency. It is recommended that this is reviewed at the same time as the overall project contingency.	Medium	Agreed. Such a contingency would be for addressing change to the scope or strategy for the project, or to allow the developer to adapt to revenue risks or opportunities. It is understood why a commercial developer would normally want to hold such a contingency. However, as a public body, the Council wouldn't normally create such a developer contingency because it is using public funds and doing so would have an opportunity cost. The Council also has access to general reserves and has an annual budget setting process, with flexibility to make in-year changes. Therefore, if the Council wanted to adapt the scope or strategy for the WWD project agreed by Council it would	Review the available mechanisms for coping with the need for additional capital or revenue in the project.	Low	Jan 2020

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			need to go back to Council with a revised business case and seek approval accordingly. Nonetheless, it is agreed that it would be useful to review the available mechanisms for coping with the need for additional capital or revenue in the project, as part of the ensuring that the necessary project governance and contingencies are in place before delivery begins.			
9	Alternative uses for large volume spaces should continue to be pursued. The opportunities of having the College, leisure centre and potential employers in close proximity to each other should provide some opportunities. Pop-up uses around community events, training and performance are all potential options.	Medium	Agreed. Irrespective of the phasing strategy eventually adopted, seeking temporary uses of spaces awaiting a long-term tenant makes eminent sense, as this will not only assist in meeting holding costs and/or managing cash-flow risk but also create community benefit. Permanent alternative uses of spaces should also be considered in case partner requirements are significantly reduced e.g. NHS clinical space.	Incorporate planning for temporary uses into the next stage of design and wider project development and marketing.	Medium	Feb 2020 (or at time of starting work on tender packs whichever is the later)
10	Greater use of the option of deferring the Cat-A fit-out and constructing to shell and core only should be considered to defer capital spend, reduce risk and waste. This could be undertaken later as part of a landlord's contribution to the tenant fit-out.	High	Agreed. A significant proportion of the office accommodation was already modelled to a shell and core level only in September 2019 for the Final Business Case as a way to mitigate the cash-flow for the project. However, it is fully agreed that extending this approach further, particularly to ground floor operational areas, should be looked at before the phase 1 scheme is determined. This potential flexibility in the adopted design was a key part of the FBC strategy and Pick Everard have already been asked to consider how this financial remodelling might be quickly undertaken if needed.	Consider increasing the proportion of the lettable space initially fitted to shell and core only depending on final phase 1 requirements.	Medium	Feb 2020 (or at time of starting work on tender packs whichever is the later)
11	The option of a reduced size build should be considered and costed to inform decision making. Reducing the building size by a third will not reduce the total project cost by a third, but the implications need to be understood so they can be properly evaluated and the impact on the borrowing and repayment levels understood.	High	Agreed. All fall-back options to the FBC scheme should be identified if and when this becomes applicable to a decision on the phase 1 scheme. This potential flexibility in the adopted design was a key part of the FBC strategy and Pick Everard have already been asked to consider how this financial remodelling might be quickly undertaken if needed. However, at the current time, it is important to obtain planning consent for the maximum potential extent of the scheme and to retain this as the target model until partner requirements for phase 1 are clarified.	If partner requirements for phase 1 significantly change, model fall-back options to the existing FBC proposals to inform decision-making.	Medium	Feb 2020 (or at time of starting work on tender packs whichever is the later)

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12	Interest in pre-let office space is likely to increase once planning permission for the development is secured and it is recommended that further market engagement is undertaken if the permission is granted to attempt to secure a pre-let.	High	Agreed. Already planned, with the use of internal and appropriate external resources. Informal discussions will also continue to be held in the meantime.	Develop and implement a marketing plan as part of delivery of phase 1 of the scheme.	Medium	April 2020 (or after planning consent whichever is the later)
13	The current contractor procurement strategy is based on partnership working and avoiding the contractor overpricing risk. If cost certainty is important then alternative procurement options could be considered.	High	Agreed. Before any formal procurement starts, the form of tendering and/or contract will be reviewed with the professional team and framework provider to ensure that the option chosen reflects the circumstances of the project at that time, and has the best chance of delivering the financial outcomes required by the Council in adopting the FBC.	Review choice of procurement method before commencing this work.	Medium	Feb 2020
14	For the construction phase of the project consideration should be given to the project team structure. There should be clear separation of roles between the client and contractor. Conflicts of interest should be avoided with clear lines of accountability and formal roles and responsibilities. The consolidation of the project and cost management roles would be expected to result in significant economies of scales and efficiencies if the same company undertook the contract administration function. It is recommended that WSC engages and retains their own design and quality inspection teams, to challenge and hold to account the design and construction teams engaged by the contractor. These should be separate appointments and any overlaps are likely to cause a conflict of interest.	Medium	Agreed. Nothing to add.	Build advice into the procurement and appointment of the professional team for the next stage of the project	Low	Jan 2020
15	It is recommended that confirmatory approval is sought at the appropriate level of governance within the Council to proceed with the project once the procurement of a contractor has resulted in a preferred bidder being selected and final costs are understood. This should precede entering into the contract and securing the loan.	Low	Agreed. This is a sensible final stage of assurance and political oversight before taking the final decision to proceed and will give the Council greater cost certainty in the light of full market testing.	Build Cabinet approval into the project programme.	Low	Before award of final contract (likely to be late 2020 at the earliest)