West Suffolk Council

Western Way Development Final Business Case Update and Review June 2021

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A. Executive Summary

1. The Western Way Development (WWD) is part of a network of existing or planned community hub projects across the whole West Suffolk area being delivered by partners in the public, charity and community sectors. These range in scale from a community-led hub project in Clare up to the multi-agency Mildenhall Hub which opened in June 2021.

2. As already seen from partners and the public there is a strong appetite and support for the improved facilities that these hubs bring and, more importantly, the stronger benefits that this co-location of services offers in terms of health, education, service delivery, economic support and reduced burden on taxpayers. The public sector in West Suffolk is at the forefront of this work nationally, and its projects are seen as national exemplars under the Government's One Public Estate Programme.

3. Building on this strong track record for co-location among the partners, the WWD has the potential to deliver another radical step change in the regeneration and sharing of the public estate. As well as delivering new employment space, it aims to integrate council and government services, the NHS, leisure facilities, an advice centre, third sector organisations and both community and education services on a single site to create better outcomes and save money. The project also offers a significant opportunity to deliver the Council's decarbonisation objectives.

4. COVID-19 has meant some delay but has shown that a facility of this nature is even more needed to protect the ongoing health and wellbeing of residents as well as the public services that support communities.

5. Equally, there is more uncertainty around the commercial office market and it is prudent to ensure an investment of this size delivers. Partners are still enthusiastic and committed to the project – even more so in some cases due to the pandemic - and the flexible and phased nature of the scheme means that the Council has options in its delivery.

6. Whatever happens, a new Leisure Centre is needed – indeed, millions of pounds have already been invested by the Council in centres across West Suffolk to improve facilities, with Bury St Edmunds being the last. The suggestion in this paper is those leisure facilities can now be even better than first proposed in 2019.

7. This paper will also go onto show that although, understandably, there are more financial challenges, the scheme can be delivered within its original budget objectives, while still meeting the strategic objectives of the Council, its partners, our communities and our businesses. At the same time it can be done in an environmentally friendly way meeting our commitments to tackle climate change.

8. The WWD was approved for delivery by Council in late 2019 and now has planning consent. However, as previously reported, COVID-19 has slowed down the project by around a year compared to the original timetable. While

the Council agreed in 2019 that the project should go forward if it met certain tests, as some time has passed due to the pandemic Cabinet want to make sure Council is updated and aware of any proposed changes and the details of proposed phasing. Council is therefore being asked to continue to support the project going forward and begin formal tendering.

9. Given the length of time that has passed, and the impact of the pandemic generally, the Cabinet has first asked the project team to review the 2019 final business case in the light of current circumstances, so that all councillors can decide whether to reaffirm their support for the scheme. This report contains that review, and this is a summary of its main findings.

Why are we still pursuing the WWD?

10. From a strategic point of view, delivery of WWD is as important as ever given the positive impact the programme to create community hubs across the whole of West Suffolk. Now, however, there is also an added COVID-19 recovery dimension. Specifically, in the case of the WWD the scheme is:

- delivering the agreed masterplan for the site
- securing the future of local community facilities (health, leisure and skills)
- creating new employment space and jobs
- all about working in partnership with other organisations under the One Public Estate Programme and, in particular, strengthening integration with NHS partners
- addressing the internal asset management need to renew the existing leisure centre (for which there is no ‘do nothing’ option).

What is the current position?

11. Investing in achieving a planning consent for the maximum amount of development the site can accommodate has given the Council and its partners the maximum range of options going forward.

12. Equally, given the pressure on the Council’s resources, the financial safeguards already agreed for the project are more important than ever. For instance, these require that the WWD hub must be capable of at least breaking-even for the taxpayer in ‘whole-life’ terms.

13. In this context, it was always the case that, to deliver the full potential of the scheme with planning consent, some kind of external funding would have been necessary to help manage the short-term cashflow implications. Not least because it would have taken several years for the commercial office spaces to fill-up.

14. However, the Council has also always been clear that, by choosing a flexible design to re-use the existing steel frame of the vacated depot, the WWD can be delivered in phases. Elements of the leisure centre can also be included in the main hub if there is not another competing demand. As demand and additional sources of finances change the space is flexible to accommodate this expansion.

15. This review shows that there is still a strong confirmed demand for the public sector elements of the scheme, including a new leisure centre and health facilities. This is in addition to whatever the new hospital will provide. However, not all of the public sector space available in the approved scheme is likely to be needed in phase 1 and likely to come forward in following stages. Similarly, while a recent appraisal shows that premium office space in Bury St Edmunds is still likely to be required, due to the effects of COVID and the pace of recovery it would be even more risky without external support to offer the full amount possible in the WWD due to current uncertainty in the commercial property market. However, the WWD will provide space, when needed, for businesses to help in that recovery.

16. As no external funding is currently available, there is therefore now a need to consider the details of these phasing options for both the public and private sector elements. By doing this, the significant risk and cost of delaying the confirmed public sector elements of the scheme can be balanced against the need for financial prudence. In short, a phased scheme can deliver the strategic and financial objectives originally envisaged in the outline and final business cases; just on a smaller and safer scale in the first instance.

17. The question is therefore: what can the Council afford to deliver in phase 1? This question can be broken down into two elements, as it was in the original business case: the leisure centre; and the new hub.

Can the Council still afford to replace the leisure centre?

18. In 2019 the business case for the leisure centre element of the centre was approved on the basis of strong strategic, management, commercial and economic cases. With regard to the financial case, it was established that, whilst developing a new centre now would create a cost pressure for the Council (then estimated at £720,000), this was cheaper in the long-term than the baseline option. Namely, continuing to repair the existing centre and still ultimately having to rebuild it later. On that basis, Council approved £27.9 million of capital expenditure for the replacement of the Bury St Edmunds Leisure Centre as part of the WWD.

19. Since 2019, work has been undertaken to review the design and financial modelling of the leisure centre proposal. Appendix 1 of this review therefore sets out the option for a larger leisure centre that provides even greater opportunities for health integration, but within the terms of the existing planning consent.

20. This new proposal increases the size of the leisure centre by 500 square metres and the estimated capital cost by £3.37 million (12 percent) before any further value engineering is carried out. But it also increases the financial benefit by 11 percent. Therefore, taking a 40 year whole life costing, it remains the case that rebuilding it now as part of the WWD, rather than deferring and rebuilding later, is the most cost effective option as well as the most strategically and commercially beneficial. Over 40 years, the revenue cost of a new build now is £35.9 million, compared with between £41 million and £44 million to refurbish the existing leisure and rebuild at a later date.

21. As such, it is proposed that the flexibility to increase the existing capital allowance for the new leisure centre is created. But only provided that the scheme still delivers the same financial benefits overall (and does not increase the existing cost pressure to address the condition of the facility). If this is agreed, more work will also be undertaken to reduce the capital cost through value engineering, improve the income position and to continue to explore the availability of developer contributions.

Can the Council still afford to develop a new hub?

22. At present, without external funding, the Council could not afford the financial risk of developing the full WWD scheme on its own – as has always been the case. This option needs to remain open, and this review does not prevent it from still happening, even in phase 1 if needed. However, if the Council wants to move forward to the next stage, it needs to base its decision on confirmed demand for phase 1 and the future rise in costs if it delays further.

23. No public sector partner has fully withdrawn from the scheme since 2019, but some have changed their requirements to reflect new ways of working. The continued strong demand for a large core scheme is built primarily around the NHS' requirement for community health facilities as part of their wider strategy to work in hubs with other partners across the whole of West Suffolk. In addition to the public sector demand, there is also expected to be demand in the first three years of opening for around 2,000 square metres of office space for rent in the WWD.

24. The WWD will contain a large new leisure centre, and shared ancillary spaces such as staff welfare facilities, plant rooms and central meeting spaces. However, taking just the areas which will be available to the public sector and commercial tenants to rent, the situation can be summarised as follows:

Space	Available under the full scheme with planning consent (m2)	Estimated minimum demand in phase 1 (m2)
Clinical health space	4239	3250
Public sector office and advice space	5259	2500
Commercial office space (by year 3)	5969	2000
Total	**15467**	**7750**

25. This is quite a conservative estimate (including expressions of interest, this demand would be over 10,000 square metres). But, even so, there is already demand for at least half of the space that is available under the planning consent. This would require a phase 1 scheme which refurbishes at least two-thirds of the existing frame, in addition to providing the leisure centre. So, by

scale, this would still be a very significant new hub; slightly bigger in overall size to the Mildenhall Hub, although with a different mix of facilities.

26. While it would be consistent with the existing planning consent, a phasing strategy of this kind would require some design changes to the internal layout to ensure that it remains both an efficient use of space and very flexible for future expansion, particularly for health services. The flexibility to do this was part of the original scheme and one of the reasons to use the depot frame. A phased approach would still keep the original design intent of the scheme, particularly its central 'Street' and its very strong environmental credentials. The highways improvements and travel plan for the scheme would also need to be retained.

27. When added to the revenue funding that would be available to pay for the new leisure centre, and other income or savings, such as from renewable energy, the estimated rents from a hub of this minimum size would be likely to support borrowing from the Public Works Loan Board of between £89 million to 93 million over 40 years.

28. Using the latest capital cost estimates, this budget should be sufficient to provide the full leisure centre plus a hub which is large enough to meet the minimum phase 1 demand above and future-proofed for later expansion. This estimate reflects benchmarked costs, and allows for inflation and other risks. It also recovers the cost of acquiring the sites. The review contains a more detailed financial analysis, including cash-flow projections.

29. Therefore, there is every reason to believe that, even if the Council has to act on its own as developer, the project can be achieved on a break-even basis, as agreed by Council as one of the tests it must meet. And also that, if procurement starts later on in 2021, that the scheme could still be complete during 2024 to 2025. In fact, delaying delivery of the project carries risks to the viability of the public sector elements in the form of higher inflation and variable interest rates.

New safeguards

30. A key issue in the approval of the 2019 final business case was ensuring that there were significant safeguards for the project to protect the interests of taxpayers. These safeguards capped the total spending on the project at £140 million, and also required that public sector partners must have signed up to meeting the Council's abortive costs before tendering started. Most importantly, they required the project to achieve a break-even position for local taxpayers.

31. This review has concluded that these safeguards are still the right ones, but also suggests that they are amended. Firstly, to create the aforementioned flexibility in the spending limits on the leisure centre. Secondly to require that the public sector partners wanting more than 200 square metres of space must sign up formally to letting agreements during the next stages of the project to give financial reassurance.

32. If this more detailed phased approach is approved by Council, the next developmental stages of the project will also now be defined in terms of five key gateways, linked to design stages and tendering. They will take the project up to the point of a contract being signed with a builder. This last gateway will require a formal Cabinet decision and, if the financial tests for the project are not met at any of the earlier gateways, the project would also be referred back to councillors.

33. This approach is designed to provide confidence to proceed to the next stage of the project, responding to the need and opportunity to deliver another great facility for West Suffolk.

B. Background and context for the review

Background to the project

1. The Western Way Development, or WWD, (also known as the Public Service Village (PSV)) was adopted as part of the One Public Estate (OPE) Programme when the councils in West Suffolk first joined OPE in 2014. Since the adoption of a new masterplan for the site in 2016, partners have been working on a business case that was approved in final form in 2019 and is consistent with the local estates strategy for the NHS. The scheme achieved planning consent in 2020.

2. The WWD is part of a network of existing or planned community hub projects across the whole West Suffolk area. Building on this strong track record for co-location among the partners, the WWD has the potential to deliver another radical step change in the regeneration and sharing of the public estate, as well as providing the contribution to growth in employment envisaged by the inclusion of the site in the current local plan. As well as potentially delivering new employment space, it aims to host council and government services, the NHS, leisure facilities, an advice centre, third sector organisations and both community and education services in a single building to improve public access, service delivery and efficiency, and promote skills and enterprise. In parallel, there is scope for separate projects to deliver student accommodation and a pre-school although these are not covered by this report as they would require standalone business cases. The project also offers a significant opportunity to deliver the Council's decarbonisation objectives.

3. As set out in the Executive Summary this is a nationally important project in delivering services and better outcomes for communities. The pandemic has shown even more need for better leisure and health provision as well as the benefits created by co-locating these together. The WWD can also contribute to economic recovery through jobs and skills.

Context for this review

4. The Council approved a final business case for the Western Way Development (WWD) in autumn 2019 and, in doing so, authorised Cabinet and officers to deliver the project described in the final business case, and seek external funding, without reference back to Council provided that:

    1. before any work commences on tendering:

        a. the project will have undergone an assurance ('gateway') review by an independent external expert;
        b. any public sector partners wishing to take part in phase 1 of the project will have entered into formal agreements to confirm the basis on which they will occupy the WWD and to indemnify the Council for their share of its abortive costs if they subsequently withdraw or substantially reduce their requirements; and
        c. taking into account a. and b. above, the Cabinet will have adjusted the final phase 1 scheme so that it continues to meet the objectives set out in the Final Business Case;

2. various financial tests are met, namely:

    a. the Council's capital expenditure being capped at the agreed maximum amounts (£112 million for the new hub element and £27.9 million for the leisure centre);
    b. the hub element being capable of achieving at least a break-even position over the whole life of the project;
    c. the cash flow risk being managed; and

3. the most beneficial and economic funding method for the project is identified, including entering into agreements with third-party investors if required.

5. The first examination of those tests was in January 2020 when Cabinet agreed an action plan from an independent external assurance review carried out at the end of 2019 (see Part C and appendix 2). At that time, procurement of a contractor was expected to begin in spring/summer 2020, with delivery of the scheme by late 2023/early 2024.

6. Good progress had been made with the project at the time that the COVID-19 pandemic had triggered the business continuity plans of the Council and its partners in early 2020. Namely:

    - All parts of the depot building were to be fully vacated in the required timescales
    - A planning application had been submitted (and this was subsequently approved in August 2020)
    - Good progress had been made with public sector partners on signing-up to their phase 1 requirements
    - A targeted review of the final business case had been completed as per the action plan for the external assurance review to update cost plans and test new scenarios
    - strong in principle support had been received (and remains) for the scheme from the New Anglia Local Enterprise Partnership (NALEP)
    - The project was on track to start procurement in parallel to planning in Spring 2020.

7. Clearly, much has changed since that point. Expanding on brief updates to the Overview and Scrutiny Committee in November 2020 and Cabinet on 25 May 2021, this paper updates Council on what has happened since early 2020 and sets out how the project could be delivered from this point reflecting the impact of the pandemic and other changes which have occurred.

8. The paper does not revisit matters in previous reports that have not changed. So, unless stated otherwise in this report, it can be taken as read that the earlier content and decisions by Councillors associated with the final business case and external assurance review still apply. Furthermore, any matters which might require consideration by the Local Planning Authority would need separate determination.

C. Strategic and Economic Cases

Review of the delivery strategy

1. The text in the main body of the report focuses on the main WWD project and specifically on the new hub element. A standalone review of the business case for replacing Bury Leisure Centre within the WWD project is set out in Appendix 1.

What has been the specific impact of COVID-19 on the project?

2. As already reported to the Overview and Scrutiny Committee and Cabinet, the pandemic has had several specific impacts on the WWD since the project was last reported to Cabinet in January 2020. Specifically:

- it has strengthened the project's strategic benefits due to its potential positive impact on recovery in relation to health, skills and employment
- similarly, it has created a focus on the importance of capital projects as another driver for economic recovery
- there have been changes to inflation, interest rate and construction market assumptions (as a result of the pandemic and other market conditions)
- there was a reduced availability of staff resources in the Council and understandably partners due to the COVID-19 response and/or harder to engage with stakeholders during early stages of lockdown
- there is very likely to be an impact on the general demand for office space due to organisations adopting flexible and hybrid working practices (working from home or a range of locations), and wider impacts on the commercial property market
- public sector partners have reviewed their estates strategies, particularly in relation to health delivery
- the wider impacts on local authority and public sector finances.

3. In terms of programme, the pandemic has already delayed delivery of the project by at least a year. Corporately, there is also now clearly a need to review the original business case for the project to test that its original assumptions around project requirements, timings and costings still apply.

Are the project's original strategic objectives still correct?

4. A project description, scope and strategic case for the WWD was made extensively in the outline and final business cases and is not repeated in this update report for reasons of brevity. Both documents are also available at www.westsuffolk.gov.uk/wwd. Instead, the focus in this report is on *what has changed since the final business case and external assurance review.*

5. Nonetheless, it is worth recording at the outset that the strategic and spending objectives of the project not only remain the same as when they were approved but continue to drive the project. As does the Council's wish to retain control over delivery of the adopted masterplan for the site. Indeed, as highlighted earlier in this report, the pandemic has strengthened the need for this type of facility to help meet the strategic aims.

6. While it has commercial aspects, the project also remains fundamentally an investment in the local community and economy. In a 2021 context, it has also become a crucial investment in recovery from the COVID-19 pandemic. It is also important to see the project in the context of the Council and its partners' commitment to the One Public Estate programme across the whole of West Suffolk. This is seen in recent and ongoing investment in community hubs and other leisure, health, skills and employment facilities across the whole of West Suffolk.

7. Another key change since the early stage of the project has been the adoption of an action plan to achieve Net Zero carbon emissions by 2030 following the Council's 2019 declaration of a climate emergency. Part of the plan was based on improving our buildings' environmental performance and so the environmental credentials of any new development are fundamental. In this regard, the Council has been successful in securing Government funding from the Public Sector Decarbonisation Fund for the installation of new electrical infrastructure and a battery energy storage system to provide benefits to West Suffolk House in the short term and then support the electrical infrastructure requirements for the new development. The positive impact of this grant is already built into the project cost estimates later in this review.

Are the project's existing spending objectives still correct?

8. Due to the cost of the potentially abortive work involved, deciding to go to the next stage of the project must still be on the basis that it is going to be deliverable, in practical and financial terms. Therefore, the key question for the Council as developer remains whether this is a sound investment in any foreseeable scenario that emerges, and that there is a sensible contingency plan to mitigate any changes to the target model? This is all explored in the later sections of this update.

9. In terms of the eventual capital cost, the Council cannot subsidise the project due to its own current and future financial pressures, and the project must take into account the existing medium-term financial strategy (MTFS). Therefore, the financial tests and safeguards originally agreed for the project in 2019 are more important than ever.

10. Accordingly, excluding the leisure centre (which would be a conventional asset management decision for a local authority), the WWD must still be a break-even scheme over the whole life of the project, allowing for

some negative cash-flow in the first few years. However, in view of the strategic benefits that might be achieved (see earlier reports and above), a break-even scheme for the taxpayer would still represent a considerable return on any investment.

11. It also remains the case that delivering the entire potential scheme in phase 1 would require significant external subsidy or third party investment. Without that subsidy, the Council as a developer will need to consider different delivery strategies and these are also explored in this report.

12. Furthermore, as will be highlighted in later sections of the review, while the projected overall capital cost of the project is still capable of remaining well within the original capped allocation for the project (£140 million), the way this capital spending is actually apportioned between the hub and leisure elements in the final scheme will need to be flexible. This is because there is now the opportunity to slightly increase the amount of leisure provision and blur the original design boundaries between the leisure and non-leisure elements. This proposal reflects continued design evolution and work by partners on service integration opportunities. It is therefore proposed in this report that the cap on the cost of the leisure centre is removed subject to strong safeguards. However, this only affects the capital spending and the two distinct business cases remain separate.

Is the approved design/planning consent still appropriate?

13. Since the final business case, the WWD scheme has been through a full planning application. Subject to completion of a s106 Agreement for highways matters, this application was approved in 2020. At the time of writing this report, the s106 agreement is being finalised but is expected to be completed shortly having been agreed in principle. Meeting the requirements of the planning process has led to some evolution of the infrastructure requirements, design and cost plan which has been taken on board in the new cost information contained in this report.

14. The WWD was conceived and designed before the current COVID-19 pandemic. The pandemic has also occurred since the planning application was submitted at the end of 2019. As such, the scheme will now need to reflect the learning from the pandemic and will be delivered in a changed economic environment.

15. However, the pandemic only serves to demonstrate the strength of the submitted design and the concept of refurbishing the existing building frame. Namely, that the design is deliberately flexible to adapt to whatever facilities the community and economy need. Not just when the scheme first opens, but over the full life of the building. This is because the scheme for re-using the frame provides a range of completely flexible spaces, within the constraints of the permitted use classes.

Therefore, it can adapt to how health, skills, leisure, employment and public services will need to be delivered over the next 100 years. So, if those changes start have occurred even before the new hub is built, then no major external re-design is required in planning terms.

16. From a delivery point of view, the planning consent is also crucial in the critical path of the programme. Simply because the Council, as developer, cannot engage with prospective funders or test the scheme in the commercial market unless it has planning consent, and can show the scheme is deliverable.

17. In simple terms, the investment in the current planning consent has provided the maximum range of options to take forward the scheme. It also positions the scheme to take advantage of any national or regional recovery programmes which require planning consent as a condition of funding.

18. Seeking the consent was also important to protect delivery of the masterplan for the site, and the jobs and new public facilities it will bring. This is because, as a committed development, the necessary highways capacity will be secured.

19. Sticking with the existing scheme is also crucial to the Council's commitment to tackle the declared environment and biodiversity emergency because it offers not only significant benefits in terms of renewable energy and a green travel plan but also proposes the re-use of a large steel frame and concrete pad.

20. In conclusion, the COVID-19 pandemic will undoubtedly mean changes to any mixed scheme as significant as the Western Way Development. But the scheme was already designed to be able to adapt to constant change in the way buildings are used by the public and private sectors over the next century, and the learning from the pandemic will be fully reflected in its first iteration.

Has COVID-19 changed the requirements of the external assurance review action plan?

21. At the time of the external assurance review in late 2019, a number of issues were identified in an action plan approved by Cabinet in early 2020. These remain largely unaffected by the pandemic as they covered matters such as sources of borrowing and project controls. **Appendix 2** shows how the action plan has been addressed in the last year and indicates those matters which are still outstanding and part of the ongoing project controls.

How has COVID-19 affected the project risks?

22. In addition, like any project, WWD is subject to a specific set of risks, which were last reported in the final business case in 2019. **Appendix 3** updates the formal project risk register. The mitigation of these risks will be a crucial part of how the project moves forward, and are reflected in the recommendations in this report.

23. The main risks facing the project at this point were already known in 2019 but have been amplified since that time. Namely:

- the risk to the Council's wider finances if the scheme is either not capable of breaking even in the long-run or has a major impact on short-term cashflow;
- the risk to the project's viability from changes in interest rates or inflation; and
- the risk of over-providing specialist accommodation for public sector partners or commercial office space (generally and in relation to changed post-Covid demands).

24. The mitigation of these risks is what lay behind the financial safeguards agreed in 2019 and set out at the start of this report.

25. Of particular relevance to this review, however, there are also specific risks from any further delay to the project (in addition to inflation or interest rate changes):

- delayed delivery of the intended strategic outcomes, including the direct and indirect contribution of the project to recovery
- the challenges facing the current leisure centre are not addressed (as set out in the leisure centre business case)
- the loss of prospective tenants due to not being able to meet their required timescales or compete with alternative options
- the inability to react quickly to funding opportunities which may arise in national or local recovery programmes
- the holding costs of vacant or under-utilised sites acquired for the project.

26. These existing and new risks combine to create a set of challenges for the project which will need to be balanced in any chosen approach to phase 1. Specifically, there is a need to provide (in no ranked order):

- **Pace**: the public sector partners who are committed to the scheme need to start phase 1 as soon as possible
- **Certainty on scope**: WSC can't tender for a contractor until we have a well-defined phase 1 scheme we know we can afford to deliver
- **Mitigation of cashflow risk**: WSC can't risk the significant costs of having un-let office units in the medium to long-term, and the commercial market is still uncertain due to COVID-19

- **Future-proofing**: we need to ensure we can still deliver something close to the full scheme with planning consent if we have to take a phased approach.

27. All of which add up to needing a very flexible, potentially phased, approach which remains subject to the existing strict financial safeguards for local taxpayers. The remainder of this report explains how this might be provided.

What are the post-COVID space requirements for the new hub?

28. While this involves third-party information which the Council would not be allowed to share in public documents, the partnership behind the project is as strong as ever, with no prospective public sector partners withdrawing since 2019 and, in fact, additional interest being generated. However, the pandemic has changed the views of all organisations, including the Council, on how it will use accommodation in the future, to capitalise on improved digital access for staff and users. This does not diminish the need for the WWD, but it does mean some partners will not want to access all of the available space in the planning consent in one 'big-bang', confirming the presumption in the Final Business Case (FBC) that some kind of phased delivery was most likely to be necessary. However, as this report makes clear, we wish to retain the flexibility to still deliver the full scheme in phase 1 if demand suddenly increases before construction.

29. Given their significance to the viability of any phase 1 scheme, it will be crucial to achieve the formal sign-up of NHS partners before proceeding. However, based on the latest information from all partners and a market assessment from the Council's advisers, a prudent estimate of the main[1] income-earning spaces that would now be required as a minimum in phase 1 of the WWD 'hub' scheme (excluding leisure) is as follows:

[1] In addition, there would be a requirement for a staff café, shared meeting rooms and multi-activity spaces in 'The Street' which could also generate income. These would add another 500m2 of income earning space to the Hub, so there is actually around 8250m2 of income-earning space reflected in the revenue modelling in Part E of this review.

Space	Available under full scheme with planning consent (m2)	Estimated minimum demand in phase 1 (m2)	Cost recovery model
Clinical health space	4239	3250	An open-book rental model under One Public Estate principles which ensures neither partner subsidises the other
Public sector office and advice space[2]	5259	2500	A standard all inclusive 'desk rate' for public sector occupiers across West Suffolk House (WSH) and WWD (but with a rental element equivalent to the commercial office space)[3]
Commercial office space (by year 3)	5969	2000	Market rent based on latest market appraisal from Council's advisers
Total	**15467**	**7750**	[4]

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[2] This assessment of minimum demand takes into account a realistic appraisal of the ability to share more of West Suffolk House with partners in a post-Covid environment of greater working from home. The 2500m2 shown is a net figure in that context.

[3] There would be a risk of challenge if a landlord attempted to distinguish between public and private sector tenants in the same building and, in any event, the rental element of the current WSH desk charge is already reflective of market rents.

[4] This is the lettable areas tenants would occupy exclusively on which rents would be based. However, this does not include ancillary areas to which tenants would expect to have access (staff facilities, breakout areas, etc) or circulation.

30. 7,750 square metres is a very prudent estimate because public sector partners have actually expressed an interest in around 8,000 square metres of space in phase 1, including options to co-locate in West Suffolk House. This will need to be clarified in the next stage of the project. Either way, this appraisal is very important because, when combined with the leisure centre business case, it demonstrates that there is sufficient demand to justify a significant phase 1 scheme. And members will recall from the FBC that one of the identified fall-back options for WWD was to phase development around a scheme which only initially required three of the four building cores[5]. A hub of this size would also still be a national exemplar and deliver all the original strategic objectives for the project. Therefore, having this baseline level of demand is the cornerstone of the proposals for phase 1.

31. An obvious question to ask at this stage is in relation to the post-pandemic demand for office space. Most public sector partners, include WSC, are planning for a return of staff to offices, but adjusting their accommodation to reflect greater working from home but also a need for different collaborative working styles and different forms of meetings. This is likely to mean some reduction in public sector office requirements in the short to medium terms, and scope for even greater sharing of existing facilities such as West Suffolk House and the Mildenhall Hub. However, it is worth noting that the estimates in the table above are based on conversations with partners since the end of 2020, not before 2020 i.e. taking into account COVID-19.

32. In the commercial sector, things are more uncertain, and the Council has asked Carter Jonas to review the previous advice they gave the Council at the time of the FBC. Their advice in early 2021, which is commercially sensitive, is contained in exempt online **Appendix 4**. However, as a summary for transparency:

- The supply of new, quality, office space remains constrained however the quantity of grade A space coming back to the market may increase as companies rationalise their occupational portfolios.
- The Bury St Edmunds office market has, over the last 5 years, performed well against other local centres.
- Most of the demand is for office suites below 500 square metres.
- A reasonable assumption is that 2,000 square metres could still be let at the WWD within the first three years.
- Office rents achievable will be subject to the quality of space, facilities and car parking ratios.
- There is thought to be a reasonable chance of securing an anchor office occupier at the WWD especially whilst there remains a limited supply of Grade A space in Bury St Edmunds.

[5] The preferred option in the FBC was (and still is) to be able to access external funding to reduce the capital cost or support short-term cashflow. This would allow the Council to build the full frame but leave some areas as shell-and-core or suitable for temporary uses. However, without short-term funding this option is impossible for the Council to contemplate because of the additional borrowing and holding costs (e.g. NNDR) with no way to mitigate them through rent.

- Discussions could continue with the serviced office sector as their presence could help anchor the scheme and help raise awareness of the office suites available.

33. This advice has been built into this review and, clearly, there would be considerable risk in bringing forward the maximum amount of office space possible under the planning consent in any phase 1 scheme. Instead, a more prudent approach would be to take advantage of the flexibility of the design and scale the phase 1 building correctly for the confirmed initial public sector demand plus a sensible amount of complementary office space to let to public or private sector partners. This approach would also allow any spare capacity in West Suffolk House to be offered in the first instance to partners.

34. If third parties could invest in the scheme, retaining the full frame in phase 1 would still be the preferred option. However, demolishing an end portion of the frame would still be consistent with a phased approach to delivering the full original planning consent because it would be possible to reinstate it later (subject to approval of the local planning authority). This model would also generate significant capital savings by both removing a large volume of space and reducing the initial cost of car parking spaces. It would also meet the known public sector requirements for phase 1. The simple fact that this option for phase 1 exists can therefore help to give confidence to proceed to the next stage of the project regardless.

35. However, while not an irreversible step, reducing the frame in phase 1 does carry risks. Principally, that demand from the public and/or private sectors for space increases suddenly and outstrips the supply of space in a reduced scheme. It would also be disruptive and more expensive to add space back later and mean that the fixed overheads of the project such as highways costs would be borne initially by fewer income-earning elements. Accordingly, retaining the maximum flexibility within the phase 1 scheme to increase internal floorspace without having to change the external frame will be really important.

36. Ultimately, however, there is simply no way without external subsidy to mitigate the risk to the Council and taxpayers of over-supplying lettable space and carrying the cost of voids. This means that the decision to phase delivery of the scheme may end up 'taking itself' under the already agreed financial objectives.

How should the guiding principles for delivering the scheme be updated?

37. It should be taken as read that the existing strategic and spending objectives for the project remain the driving force behind the project. The same applies to the scheme's environmental credentials. However, taking everything above into account, the following are proposed as an updated set of principles and associated actions for any onward delivery strategy for the WWD in relation to the Council's developer role:

a. Prudence and Assurance

i. Meeting the tests of at least cost-neutrality over the life of the project and managing cash-flow
ii. Requiring third party commitment (funders and occupiers)
iii. Basing decisions on up-to-date market appraisals and confirmed public sector demand
iv. Only tendering when there is high confidence that we have a scheme we know we can afford to deliver
v. Adopting a procurement approach which maximises cost-certainty and collaboration (see Part D)
vi. Implementing the other elements of the action plan for the 2020 external assurance review (see appendix 2)
vii. Maintaining a robust project risk register and project governance structure (see appendix 3 and 2019 FBC)

b. Affordability

i. Maintaining momentum to avoid 'pricing out' the core public sector elements through inflation or interest rate changes and/or missing out on funding which has to be spent in short timescales
ii. Maximising value-engineering and ease of construction through design
iii. Sharing the fixed costs of the scheme fairly across as many uses as possible
iv. Ensuring that third parties can jointly invest in a scheme that meets their requirements if they obtain funding

c. Flexibility and Sustainability

i. Preserving as much as possible of the existing scale and scope of the planning consent whatever the phasing model
ii. Retaining a flexible design model for re-using the existing frame
iii. Future-proofing the design for easy adaptation to clinical or other secondary uses
iv. Always ensuring that the all of the NHS' immediate and future clinical requirements can be provided in the phase 1 design.
v. Ensuring the maximum contribution is made to the Council's carbon reduction objectives

Applying these new principles to the scheme's design

38. Firstly, these principles do confirm again that investing in a planning consent for the maximum possible extent of the scheme was not only the correct decision but also gives the Council and its partners the maximum range of options going forward.

39. Secondly, by testing design and value-engineering options against these principles over the last year, the project team has already been able to identify some potential changes to the final scheme that might improve viability and flexibility within the existing planning consent, irrespective of whether the full frame in retained in phase 1 or not. Where a variation to the current planning consent might be required, these ideas have been discussed informally with the Local Planning Authority (although nothing in this report presumes they would

be agreed). Although it is not the primary purpose of this report to examine design issues, these potential options can be briefly summarised as follows:

a. **Partially reducing the frame**
   As mentioned earlier, reducing the size of the existing structure may be needed because of the financial risk of having too much space in phase 1. However, this could be re-instated at a later date, along with the necessary parking capacity under the original consent.

b. **Relocating the sports hall**
   A leisure centre extension to the existing frame will always be required because of the swimming pool. However, as was pointed out in the 2019 FBC, the depot frame offers ideal internal dimensions for a sports hall and, with a reduction in likely demand for office space, there is the opportunity to relocate this from the leisure centre extension into the main frame and, as explained in appendix 1, potentially extend it.

   This approach is also a key part of retaining flexibility in any phasing plan, insofar as the sports hall could always be put back in the originally intended location if there was a significant increase in demand for office or clinical space either before or after the build.

c. **Commercial entrance and separation of the office space**
   There was always an understanding that, during working hours, parts of the building would have controlled access for staff and tenants only. However, the most recent advice from Carter Jonas confirms that the marketability of the building to the widest range of potential tenants in a post-Covid environment would be increased if, by way of a minor amendment to the planning consent, a new commercial entrance to the building was created at the Beetons Way (eastern) end. Combined with any reduction of the frame in phase 1, this could also offer a stronger Beetons Way frontage.

   This approach would also assist in enabling the multi-activity breakout space at the eastern end of the internal 'Street' to work as a standalone public space out of normal office hours. This greater separation of the two distinct elements of the building would, in any event, be required by a fire strategy if clinical spaces were extended across both sides of the Street. However, it should be noted that this would not prevent controlled access between the two areas.

d. **West Suffolk House**
   Like any office building, Covid-19 will affect how West Suffolk House (WSH) is likely to be used in the future. The 2019 FBC for WWD included a sum for some remodelling of WSH. However, what is now proposed is that the future treatment of WSH is not addressed through the WWD capital budget (and a timescale which is several years away) but instead is treated as a standalone project brought forward with the joint owners, Suffolk County Council, in the shorter-term. None of this precludes any later integration with the WWD.

e. **Link bridge and staff entrance**
The planning consent allows for a link bridge at first floor level between WSH and WWD to allow easy access for public sector staff working across both sites. Some of the potential configurations make this either impossible or unsuitable (not least if the frame is reduced in size). Therefore it is likely that the bridge may be omitted from phase 1 depending on the model chosen. The staff entrance may also be relocated on a similar basis.

f. **Parking provision**
There is no suggestion that the Council as developer would seek to reduce the maximum amount of parking it is allowed under the planning consent (just under 1400 spaces). However, these spaces will need to be delivered under a phasing plan which reflects the actual occupation of the buildings over time. This phasing could have a large bearing on overall cost and cashflow.

g. **Mezzanine decks**
The 2018 OBC put forward a model for a two-storey conversion of the depot frame. The subsequent market appraisal of office demand and requirements of the public sector for the planning consent required a more intensive layout for the 2019 FBC. This led to a narrower 'Street' but also the creation of a mezzanine deck above the office spaces and also the bridges spanning the atrium. This is an exciting design option and may still be delivered in full or part.

However, the three storey/mezzanine option was a model intended to create the maximum amount of office space within the fixed height of the frame. It also allowed the Council to obtain planning consent for the maximum possible occupancy of the building, providing the greatest flexibility as a developer going forward (and also testing the highways and parking capacity to the maximum extent). This was therefore the right thing to do up to this point in the project, and in a pre-Covid context. However, there are some crucial changes since the FBC (in no ranked order of importance):

- The mezzanine model envisaged occupiers taking larger spaces, split across two floors. The latest market appraisal indicates that the safest demand to target from commercial tenants will be smaller units that will be harder to deliver using the mezzanine design. Whereas office accommodation on one upper floor only will be easier to sub-divide.
- The mezzanine floor option requires a completely different engineering approach within the building due to the extra weight of the structure, and the space available for plant and air-handling.
- From a future-proofing perspective, the mezzanine precludes clinical spaces being provided on the upper floors as the air-handling and privacy they need cannot be provided. This means all of the clinical space has to be provided on the ground floor and it would require the whole frame to deliver the full long-term requirement. From a flexibility point of view,

a two-storey design would therefore allow the NHS a far greater range of immediate and long-term options.
- Based on the post-COVID appraisal, having the mezzanines could now potentially result in a large over-supply of commercial office space in the scheme that may take many years to let. The holding costs of this could be significant, particularly if business rates were triggered on the spaces.

h. The 'Street'

Removing the mezzanine decks could not be looked at in isolation, as it would unbalance the efficiency of the building and, in particular, the 'Street'. The Street is the central area of the hub building running most of its length and pulling it together as an exciting and interactive space. In the FBC design, the Street was a largely open multi-activity space of over 2000m2 to be used for circulation, waiting areas, event space, café and breakout areas, some toilets and small standalone units of operational space. Other building services, staff facilities, server rooms and storage were provided in the two wings running either side of the Street.

If the mezzanines were removed, such an approach would make the the Street unaffordable, as its build and running costs could not be covered by the reduced lettable space.

Therefore an alternative approach which could be explored is to divide up the Street with two or three freestanding two-storey units containing ancillary and operational facilities, thereby releasing prime lettable space elsewhere. These units might be described as 'cubes'.

This would not diminish the functionality or animation of the Street, or require any new planning application. The full-height atrium spaces between these units would remain as exciting activity areas and would, in fact, have greater functionality and income earning potential because they would be easier to use while the building was in normal day-time use; passing on either side would be a corridor running the entire length of the building. In reality, this would not feel hugely different to the current concept where the Street is narrower in places and divided up by the bridges and/or closed off at the ground floor at certain times of the day. There was therefore rarely likely to be an operational scenario where the Street was either visible or used for a single activity in its full length.

To illustrate the concept, a very early impression of how the eastern end of the Hub might look in a two-storey/cube format is shown at the end of this section of the report. This is a view looking back down the Street from the eastern (Beetons Way) end of the hub building. This could be the office and skills section of the building and it can be seen that the flexible multi-activity space in the Street is retained for use by building occupiers and the community.

Maintaining Flexibility

40. If it is not possible to deliver the full scheme in phase 1, it will be essential to ensure that the maximum flexibility is retained going forward, at all phases of the project. But in a way that does not compromise the tendering and contract management of the build as this could lead to abortive costs and/or expensive variations to the contract sum.

41. In very brief summary, the phasing and/or variations strategy after a phase 1 scheme had been finalised would therefore need to be as follows:

    a. **Changes during tendering** – if a partner wished to change their specification during either stage of the two-stage tendering process they would need to meet the cost to the Council in full of any re-design and re-tendering.

    b. **Changes during build** - as with (a), the additional cost would need to be met in full by any partner requiring the change.

    c. **Changes after completion of phase 1** – this would need to be treated as a completely separate and later project, requiring its own new business case (to be approved under the relevant provisions of the Council's constitution).

D. Commercial Case

Procurement

1. It was identified in the Final Business Case (FBC) that the Pagabo Framework would offer the Council an excellent route to market for the project, and that evaluation is not repeated here. The Framework has been renewed since 2019 and there are now six national contractors with three reserves on the major projects list.

2. Informal engagement events were held with the framework contractors in autumn 2020 and spring 2021 and there remains considerable interest in the project from the market. The Council will seek to receive a minimum of three bids.

3. Part of the 2020 engagement involved a questionnaire to prospective contractors to explore methods of procurement, contractor involvement in design and initial observations on the project itself. The latter has helped shape the updated project risk register at appendix 3.

4. At the time of the FBC, the thinking was to use the Institute of Civil Engineers' New Engineering Contract (NEC) Option C for the project. Option C is a contract which is subject to a pain/gain share mechanism by reference to an agreed target cost built up from an activity schedule. A target cost contract of this type introduces a mechanism enabling the contractor to share in the benefits of cost savings, but also to bear some of the cost when there are cost overruns.

5. The action plan for the external assurance review suggested this was kept under review, and it has been re-evaluated to reflect the impact of COVID-19 on the project and the Council's finances. As a result, and following consultation with the Council's consultants and potential contractors, the current thinking is that cost certainty is even more important than ever. As such, it would be better to revert to using a more conventional 'design and build' NEC Option A contract, but via a hybrid two-stage procurement exercise.

6. Option A is a priced contract with an activity schedule, which relates to a programme where each activity is allocated a price and interim payments are made against the completion of each activity. The contractor largely bears the risk of carrying out the work at the agreed prices. This means the client has greater cost certainty in respect of matters over which the contractor has control. However, it does mean that the client needs to have a very well-defined specification at the time of the final contract agreement.

7. The hybrid two-stage approach to procurement proposed is well understood by the Pagabo contractors. It is designed to further increase cost certainty by establishing certain costs at stage one, as well as engaging the contractor early on in the design process. Under this approach, bidders would be assessed at stage one on the basis of:

   - A quality submission (still a very high proportion of the overall score, most likely 70 percent)
   - Overhead and Profit Percentage
   - Preliminaries

- Pre-Construction Services Agreement (PCSA) Fee
- Costs for certain build elements such as externals, stripping back to core, etc.

8. The previous preference for NEC Option C, and for a risk and reward mechanism, was not because of any expectation of reward but because the Council wanted to manage risk, and incentivise collaboration and cost control. The market clearly has an overall preference for bidding under form A (which is important to ensure competitiveness) and believes this offers the client more certainty on risk and cost. There is also the potential advantage of this being an easier and cheaper form of contract to administer; some contractors have made the specific observation that the collaborative approach of Option C may be more complex when there are multiple partners in a project, as there would be under the WWD.

9. However, if the Council takes the NEC Option A route it will need to ensure:

   a. early contractor involvement, with a sufficient and properly resourced (on both sides) preconstruction period under a formal Pre-Construction Services Agreement (PCSA). PCSAs enable clients to employ contractors before the main construction contract commences. Typically they are part of a two-stage tender process, used in the first stage to procure contractor involvement in the design process;

   b. that post contract variations are kept to an absolute minimum i.e. the Works Information (drawings, specifications, and other documents) must be in a complete state, with the employer certain of its requirements before tender (or properly indemnified by partners if they wish to change their requirements later);

   c. an Option A Activity Schedule is developed in detail during the second stage tender to: ensure all elements are identified as the design progresses; allow the allocation of costs to activities; and understand cash flow for both employer and contractor;

   d. it is combined with a realistic risk understanding and apportionment between the employer and contractor at stage one (with investment as needed to clarify these risks).

10. This approach will mean that the Council will not seek to tender until there is as much certainty on risk and client requirements as possible. Along similar lines, it is also crucial not to start tendering until there is absolute certainty on funding; once the tendering process starts if there were a delay to allow funding to catch up it would result in costs to the developer.

Design services

11. Pick Everard have worked on the project since its inception and it is proposed to continue their involvement through to the point at which they can be novated to the main contractor under a design and build contract. This was also the universal preference of the Pagabo framework contractors. After this point, the Council will need to continue to engage technical advisers during the construction period (including a leisure specialist).

12. Design appointments would be based on the Royal Institute of British Architects (RIBA) Standard conditions of appointment. In addition to the architect and other normal design disciplines, a core project team will be needed comprising: Project Manager; Cost Consultant; and Contract Administrator. To maintain pace on the project and obtain good value for money, it is still proposed that the appointment of these consultants should be commissioned under an available framework. The cost plan in this report includes these professional fees and is based on standard industry norms. However, experience on this and other projects suggests that the Council should be able to negotiate better value than these rates and/or obtain price certainty through a cap on fees.

Other professional services

13. In addition to the above:

- Further specialist advice will be needed on matters such as highways, ecology, renewables, etc.
- Property and valuation services will be needed, including marketing of commercial spaces and work to develop leases.
- Legal services will be needed in relation to: due diligence work; finalising any construction related contracts/appointment documentation and associated warranties; transfers of assets, etc.
- A clerk of works may need to be employed.

Specialist advice will also be needed in relation to the leisure centre.

14. An allowance for further external advice is included in the cost plan, and there is also provision for the Council's own internal staff costs. A project of this magnitude is still likely to require the equivalent of one FTE in terms of senior officer time.

Separate projects and packages

15. As explained in the FBC, there is a clear advantage of offering all of the works on the main site under a single contract to minimise duplication of site management overheads. However, there may be scope to offer some parts of the project as separate packages.

16. This already applies to the pre-school and student accommodation elements of the original project as these would need to be taken forward as separate projects in their own right, with separate planning applications. If this is the case, then they will have their own business cases proposing approaches to procurement and professional support. They may well suit small to medium-sized contractors or specialist providers.

17. The package to build the athletics pavilion could also benefit from being offered to a smaller or specialist builder. Similarly, if it is needed in phase 1, it is also possible that the contract for converting the Beetons Way (north) car park could be offered as a separate package to a smaller contractor.

18. The Council will also work with Suffolk County Council to determine the best way to procure the necessary highway works off-site, as there may be scope to combine these with other planned programmes and external funding bids.

E. Financial Case

N.B. A more detailed review of the business case for the leisure centre is contained in appendix 1.

Review of Capital and Revenue Position

1. In the 2019 FBC, and on the basis of projected public sector and commercial demand for space at that time, the WWD Hub was shown to be capable of a whole-life break-even position if fully occupied. However, this was on the basis of external cash-flow support in the short-term as some of the space would be built as shell-and-core and take some years to fill up. At the time of writing this report, while national and regional bodies are supportive of the scheme, they do not currently have capital or revenue funding they can offer. Furthermore, as explained earlier in this review, COVID-19 and other factors have had an impact on WWD since 2019. Therefore, the project must be re-evaluated against the 2021 situation and on the basis of the Council being the sole funder from this point onwards.

2. Reflecting the new approach set out in the earlier part of this report, and the action plan for the external assurance review, the project team has therefore compared alternatives to the scheme which received planning consent[6].

3. Depending on which of the potential phasing options or design changes highlighted in the previous sections of this review are adopted, the latest top-level projections for the capital cost of building the scheme range between £91.3 million and £132.44 million including the Council's own internal costs such as site acquisition. This is within the limit of £139.9 million set in the 2019 FBC. The range in capital cost is largely driven by the amount of floorspace needed for the phase 1 scheme (up to and including the full FBC scheme).

4. More certainty on capital costs will not come until a phase 1 scheme is designed in more detail and market-tested. However, what can already be seen at this point, as explained in appendix 1, is the need to create more flexibility in how the £139.9 million upper limit on capital spending is split between the hub and leisure elements. This is because the two facilities now overlap more and there is scope to increase the size of the new leisure centre.

5. While greater clarity on capital costs will be needed before any contract is signed, what is more crucial to making the decision to proceed to tendering is understanding what the Council can afford to borrow if it is to meet the 'break-even' test set in 2019. As explained, this appraisal needs to be made in the worst-case scenario of the Council receiving no third-party funding for the scheme. The key to understanding the viability of the phase 1 scheme is therefore knowing:

[6] As agreed in the FBC, the pre-school and student accommodation elements are separate projects and will require their own business cases (and leadership and funding by other partners

a. how much space could be assumed to be lettable in a post-COVID environment (see Part C of this review) and in a worst-case scenario (hence using minimum estimates of demand)

b. what income those rented spaces might generate at either market rates or using public sector cost recovery models; and

c. what other costs, such as the travel plan, the landlord might need to budget to meet in any scheme.

6. A net revenue projection based on these three variables can then be used to identify the level of borrowing that could be supported. This then becomes the available budget that will determine the scale of the phase 1 scheme.

7. There is, however, a further dimension. Insofar as the manner in which the Council borrows the money will have a significant bearing on the budget i.e. rate of interest, length of term, fixed rate or not, etc. This sensitivity can be seen in the later figures in this section. This is why the inability to fix borrowing costs while interest rates are low is such a large risk to the project. Similarly, this is why it is important that public sector partners commit to long leases because this provide the assurance for lengthier borrowing periods such as 40 years.

8. At the point borrowing is needed, the Director (Resources and Property) will select the most advantageous method in accordance with the Council's agreed Treasury Management Strategy and rules. But, for the purposes of this review, borrowing is assumed to come from the Public Works Loan Board (PWLB), using the annuity method of borrowing over a period of 40 years.

9. PWLB interest rates are linked to UK Gilt rates and as such change on a daily basis, however they are currently sitting at around 2.15 percent for 40 year borrowing (taking into account the Certainty Rate discount available to councils like West Suffolk). In order to have a contingency within the borrowing costs against any potential interest rate rises, the interest rates used as part of this review range between 2.25 percent to 2.50 percent.

10. Alternative borrowing methods will continue to be explored during the next stage of the project, and these will be communicated to councillors separately through the normal treasury management processes alongside the rest of the Council's capital programme.

11. Under these assumptions about borrowing, and strictly for illustrative purposes only, if we take the current estimate of minimum demand explained in Part C of this review, the following is a summary of the likely borrowing that could be supported. This uses expected market rents for office areas and a notional cost recovery rent for clinical areas when fully occupied. It also includes income that could be expected from renewables and car parking for a phase 1 scheme which is scaled for this level of demand, and additional income linked to catering and meeting/event hire. A sensitivity analysis would be applied to any models in the next stages (see 'gateways' below).

	Sq metres	Estimated Income after three years (fully occupied) (£)
Clinical	3,250	875,000
Public Sector Office/Advice	2,500	538,000
Commercial Office	2,000	430,500
Car Parking[7]	n/a	100,000
Renewable energy savings	n/a	550,000
Other Income (catering, room hire, etc)	n/a	64,000
Net Impact of Leisure Centre (see appendix 1)[8]		1,196,500
Less Landlord Costs	n/a	-250,000
Total Net Income		**3,504,000**
Capital Costs Affordable (reflecting sensitivity of interest rates)	**£89m - £93m**	

12. So, it can be seen, if public or private sector demand was to be confirmed at this level before tendering commenced, the Council would need to set its design team and any contractors a target of between £89 million to £93 million. And if demand was confirmed to be higher or lower, the budget would increase or decrease accordingly, up to the level original agreed in the 2019 FBC and planning consent.

13. Pick Everard have already started work on a new cost plan to help to assess whether such a level of demand could support a break-even scheme. While some of this work would need to be deferred until there is a firm phase 1 scheme in order to avoid abortive costs, there is still confidence regarding the likely cost of the leisure centre extension because it has changed very little since the FBC. For the external elements of the scheme (car parking, highways, landscaped areas, etc) it is already possible to be fairly accurate because these are determined by the footprint of the phase 1 scheme within the site and/or likely levels of occupation.

[7] Some of the net car parking income is incorporated in the rental estimates as it will be an inclusive package. The remainder shown here will be from direct parking charges. All parking will be subject to the travel plan requirements in the planning consent.

[8] For the leisure centre, the Council is already making provision to fund a deficit of £720k as there is no 'do nothing' option. There is also an annual benefit of £476k from the new centre (see appendix 1). So adding the two together indicates what level of borrowing can be supported.

14. However, pending any re-design and the ability to measure and price the actual phase 1 scheme, the Council will need to use proxy figures for the construction cost of the new hub building. This would be a notional rate which references available benchmarks where they exist (including the original FBC scheme for the hub), but also takes into account the potential impact of identified value engineering options (including those listed in Part C of this review) on the most recent cost plan. In effect, this is the rate the Council will need to target to demonstrate it is still achieving best value from the scheme. Another important clarification is that, in the final scheme, the costs per square metre of the leisure and hub elements may need to be adjusted to reflect how the final energy centre is apportioned – at present this is included entirely in the hub figures, albeit the bottom line for the overall scheme is the same.

15. On this basis, and to inform the preparation of this report, the design team has carried out a floorspace planning exercise to identify the most efficient internal layouts for various phased schemes. Staying within the framework of the existing planning consent. This has included engagement with health partners on their clinical requirements and other partners to understand what elements work best next to each other and what they can share.

16. There are multiple options, and one will not be selected until the next stage of the project when demand is confirmed by partners. However, among the range of options tested, there is one that matches the estimated minimum level of demand set out above, subject to small adjustments between office and health elements[9]. This model also reflects the size of the leisure centre discussed in appendix 1. Therefore, while it is unlikely to be the final scheme, it can be used now as a proxy for testing viability. The target cost, including all overheads, inflation and contingency, can be summarised as follows.

	£
Main Hub direct cost (not including leisure elements)	30,582,000
Leisure Centre direct cost	21,143,500
External Works	11,761,500
Professional Fees	5,676,000
Risk Allowance	6,324,000
Inflation Allowance	5,908,000
Internal Costs incl site acquisition	9,880,000
Overall cost	**91,275,000**
5% reduction in total project cost	86,711,500
5% increase in total project cost	95,839,000

[9] In this model, there is 7230m2 of space in the hub allocated to clinical and offices compared to 7750m2 in the minimum demand estimate in this report. However, it would be fairly simple to adjust the size of the frame to accommodate an extra 400-500m2 because each span between the existing steel columns is around 6m). This extra cost could be traded off against any value engineering savings which would be sought in the next stage.

17. In the 2019 FBC, a cashflow projection was also shown over 40 years, and for illustrative purposes, it is possible to repeat this for the notional capital and revenue implications used in this report.

Annual Revenue Implications

18. The below table shows the estimated annual revenue implications of the scheme based on initial assumptions of income levels and annual costs, along with the total annual borrowing costs. There are two positions modelled based on the range of assumed interest rates of 2.25 percent to 2.50 percent. This is to show the initial revenue position of the scheme once fully let out post construction. Due to the way borrowing would be structured, and other factors such as inflation and likely vacancy rates in the early years of the scheme, this is only part of the picture. The impact on the Council's Medium-term Financial Strategy (MTFS) is therefore shown in the cash flow profiling below.

N.B. To allow comparison with the FBC, the financials relating to the leisure centre are not included in these figures as they are explored in more detail in Appendix 1. However, were they to be added, the bottom-line figures would be almost exactly the same.

Annual Revenue Implications	**£**
Annual Income	2,557,500
Annual Expenditure before Borrowing Costs	-250,000
Borrowing Costs at **2.50%**	-2,394,500
Surplus / (Deficit) after Borrowing Costs	**(87,000)**
Annual Income	2,557,500
Annual Expenditure before Borrowing Costs	-250,000
Borrowing Costs at **2.25%**	-2,294,880
Surplus / (Deficit) after Borrowing Costs	**12,620**

19. Based on this range, it is therefore considered that, with the further mitigation listed later, it is feasible to achieve a cost neutral position.

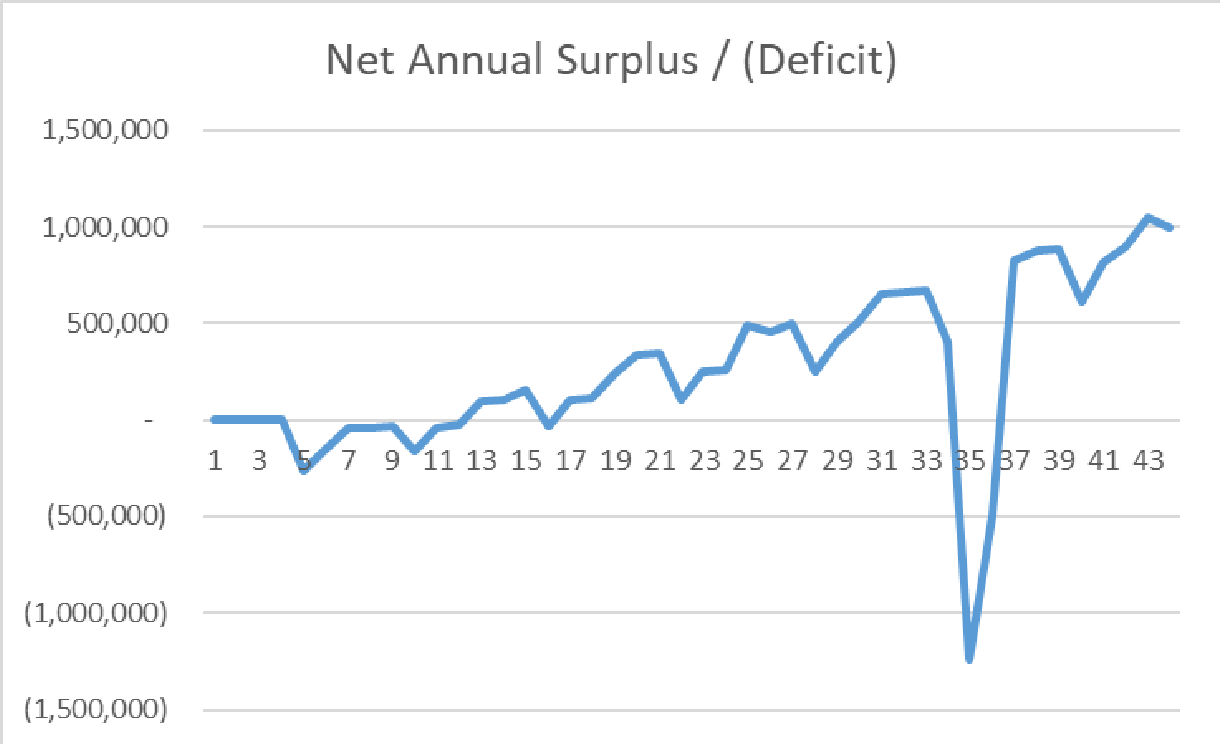
Cash Flow Forecast

20. For the purposes of assessing the impact of this scheme on the Council's MTFS and beyond, a more detailed analysis of the revenue expectations has been carried out and put into a cash flow forecast.

21. This cash flow forecast includes pessimistic assumptions around void or rent-free periods[10], inflationary increases in both rent and cost, phasing of capital spend and

[10] A rent-free period may reflect the tenant's own investment in the property e.g. a refit.

the capitalisation of borrowing costs during the construction phase of the project. Details of these assumptions can be seen with the cash flow graph below.



<u>Assumptions and Notes:</u>

a. Borrowing repayments start straight away with interest repayments capitalised during construction period.
b. Minimum Revenue Provision starts in financial year after construction completion for 40 years.
c. Rental income for all elements barring commercial office starts from day one.
d. Commercial office rent phased over three years.
e. Lease term of 30 years for health partners, with three year void or rent-free period after completion of lease/to coincide with major refit (N.B. longer periods are actually being discussed as this will assist the Council's due diligence)
f. Lease term for other public sector partners between 10 to 30 years, with one year void period after completion of lease.
g. Lease term for commercial offices of five years, with one year void or rent-free period after completion of each lease.
h. Inflation rate of 1.00 percent applied to income levels and annual expenditure.
i. Borrowing costs can be fixed and will stay the same for the life of the loan.
j. Rental income increased by inflation after five year rent reviews for each lease.
k. Annual expenditure costs increase by inflation year on year.
l. Borrowing costs based on 40 year borrowing, using the annuity method at an interest rate of 2.50 percent.
m. Years 1 to 3 in the graph relate to the construction period, and show a nil effect on cash flow as construction costs will be offset by loan financing, and any interest costs will also be capitalised into the project.
n. Year 4 to 6 show small deficits as we have modelled the commercial office space being filled over a three year period. We will be actively looking for commercial tenants to fill the space as quickly as possible to mitigate these costs as much as

possible. However, taking into account the advice from Carter Jonas, it is prudent to use the assumptions we currently have. Clearly, though, it would be open to the Council to reappraise the initial rent levels to incentivise occupation

22. The cash flow forecast above shows that, over the course of the whole project, it could potentially generate a total surplus of up to £11.5 million (on a non-discounted cash flow basis and allowing for the worst-case scenarios of voids aligned to rental periods, which account for the short-term deficits). However, this is obviously a forecast based on the illustrative phase 1 scheme and would need to be kept under review, and discussed with public sector partners under One Public Estate principles.

Further mitigation

23. Clearly, the Council and partners would want to see the capital cost as low as possible and, at worst, matching any available industry benchmarks for cost per m2 in specific areas[11]. As such, it would continue to seek the following mitigation to the costs of the scheme, in addition to seeking to generate more revenue from rentals and other income:

    a. **Continued Value Engineering**
    Significant work has already been undertaken to improve the efficiency of the capital project, and this needs to continue in the detailed design stages, including through early engagement of contractors and their supply chains (who can assist on 'buildability'). A developed design and specification will also assist in attracting accurate as well as competitive bids from contractors.

    b. **External funding**
    As explained in the FBC, the full employment and skills potential of the scheme was only ever likely to be realised if the Council could attract external funding. While no funding has yet been available to access, discussions will continue with regional and national funders and any new potential sources of funding will be explored. External funding for the fixed overheads of the site, such as highways costs, would be particularly beneficial, and the councils have been actively exploring this. Until any funding is obtained, the Council will continue to model the viability of the project on the assumption there is none, to ensure that optimism bias does not influence key decisions.

    c. **Additional renewable energy income**
    The model already includes significant income from renewable energy based on actual rates of return from previous projects. But this is something that can be explored further to ensure it is being maximised, including local energy networks with partners. New ways of managing the heat and power in the scheme more efficiently could also contribute to this source of revenue. It is also worth noting that some of the capital cost of the project has already been reduced to reflect the Council's success in attracting a government decarbonisation grant which is being used to install a new battery at the Western Way site that will serve West Suffolk House immediately and WWD when it comes online.

[11] There is no single benchmark for a multi-use hub building at present.

Review of financial tests and safeguards

24. The financial tests and safeguards approved at the time of the 2019 FBC are set out in Part B of this review. However, a summary of their current status is as follows:

Requirement	Status	Notes
External Assurance Review	**Complete**	Cabinet January 2020 – see appendix
Partner sign-up	**On track**	Either agreed in principle or achieved for major partners.
Phase 1 scheme adjusted to meet original objectives	**Achievable**	Continually evolving as needs change. Will be fixed at time phase 1 scheme is tendered.
Capital expenditure capped at £112m for new hub and £27.9m for leisure centre	**Achievable subject to adjustment of limits for specific elements**	See separate text below
Hub capable of at least a break-even position over the whole life of the project	**Achievable**	See report on latest viability. This is implicit insofar as we will not proceed with a scheme which does not.
Cash flow risk being managed	**Achievable**	Risk reduced by smaller scheme
Best funding method for the project is identified, including third-party investors if required	**Still met**	Continually under review, and option for exploring third-party investors still exists

25. With two exceptions, these tests are still sufficiently robust and do not need to change. Those exceptions would be to:

    1. remove the existing £27.9 million cap on the leisure centre expenditure provided that, as a replacement safeguard, at the time of a construction contract being agreed the leisure centre business case still at least breaks even as a normal asset management decision (as explained in appendix 1). The Hub is already required to break even as an investment decision; and

    2. require partners requiring more than 200m2[12] of exclusive floorspace to agree heads of terms and enter into formal pre-letting agreements at certain project gateways (see below).

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[12] This will retain flexibility to work with partners who only require a small amount of complementary space.

26. As a further safeguard, it was previously agreed in January 2020 that Cabinet would need to sign-off any final award of contract after tendering. Such a Cabinet decision would be subject to normal call-in rules.

Project Costs and Cashflow

27. The final cost plan will include the Council's costs as developer in addition to what it will pay any contractor to build the facilities and other overheads such as s106 contributions for highways. An assessment of these costs, using industry benchmarks for design fees, project management and cost consultancy and allowing for other internal costs such as additional staff costs, is already included in the indicative capital cost earlier in this section of the review.

28. However, the way in which these costs are phased and managed will have a large bearing on the scheme's cashflow impact and the risk of abortive costs. Therefore, it is proposed to break the pre-contract stages of the project, and the associated costs, into a series of mini-gateways. These will ensure that the project will only be committed to the next round of expenditure when it is certain that the financial tests can still be met. Partners will also need to have met certain requirements at each stage. The gateways can be summarised as follows:

	Design	**Procurement**	**Partner-sign up**
Gateway 1	RIBA Stage 2 equivalent (concept)	Expression of interest and invitation to tender	Confirm phase 1 requirements and agree to underwrite abortive costs from this stage
Gateway 2	RIBA Stage 3 equivalent (developed)	First stage tender and enter into Pre-construction Services Agreement	Agree heads of terms
Gateway 3	RIBA Stage 4A equivalent (technical)	Review employer's requirement and cost plan with first stage contractor	
Gateway 4	RIBA Stage 4 equivalent (technical)	Contractor produces Second Stage Tender submission for review	
Gateway 5	RIBA Stage 5 equivalent (construction)	Appoint Contractor to construct facility (Cabinet approval required)	Enter into formal pre-let agreement

29. Officers will sign-off gateways 1 to 4 under their existing delegated powers in consultation with the relevant Cabinet members. If the tests cannot be met at any stage, the project will, by definition, need to be referred back to councillors under normal constitutional rules. Gateway 5 is already required to be signed-off by Cabinet following the earlier external assurance review.

30. The costs associated with each gateway will depend to a large extent on the scope of the final phase 1 scheme but they are likely to cost up to £5.7 million. The cost to get through gateway 1 is likely to be up to £650,000. Although this amount forms part of the overall agreed capital budget allocation for the project, given we are still at the design and pre head of terms stage, this project amount will to be underwritten by existing revenue reserves and balances. This approach is designed to manage the revenue impact of potential abortive costs, should the project not proceed beyond gateway 1. At each Gateway stage the risk of abortive costs will be assessed and if necessary, existing reserves and balances will continue to be used to underwrite the revenue risk.

31. For illustrative purposes, these sums are included in the notional cost plan set out above, and the likely phasing reflected in the notional cashflow.

32. These gateways are also important to partners, particularly the NHS, because they will be required to meet any abortive costs (pro-rata) if they significantly change their requirement after the Council has started work on the agreed phase 1 scheme.

Conclusion

33. What can be seen clearly is that, if the scheme is to proceed with any of the 'full frame' options, then external funding will be required in some form. If this cannot be obtained before phase 1 starts, then a smaller phase 1 scheme built around known public sector demand which can be funded under normal asset management principles will be needed. However, current modelling of demand and costs suggests this is likely to be possible subject to updated project safeguards.

F. Management Case

N.B. This section of the 2019 Final Business Case (FBC) covered other matters such as internal project governance and risk and these are not changed.

Review of Programme and Phasing

1. The 2019 FBC set out a construction programme based on an assumed start date in Spring 2020 with occupation by mid-2023. This has been kept under review since that time by the project team and also through testing the FBC scheme informally with the framework contractors. Speed of programme will be a component of the evaluation of tenders.

2. Clearly, the choice of option for phase 1 will have some bearing on programme length, and there may also be ways to accelerate the start on site (by carrying out some remediation independently of the contractor) or build programme (for instance, phased handover). Adopting a two-storey option could, for instance, save two months of construction.

3. However, generally speaking, what is envisaged is a full programme of around 256 weeks (just under five years) from the point at which the project moves into the stage of preparing a tender pack, with key milestones of:

    - Sign-off of contractor appointment by Cabinet: Week 85
    - Construction begins: Week 89
    - Completion of hub and leisure centre: Week 218
    - Making good of existing leisure centre site: Week 256

4. Based on the above, if phase 1 can be signed off to proceed in summer 2021, occupation of the new hub and leisure centre could be anticipated towards the end of 2024 to 2025. This means the impact of Covid-19 to date has been a delay of around 12 to 15 months.

5. A key phasing issue will also be managing occupation levels to suit car parking availability (since some car parking is the final element to be delivered). Specifically, if phase 1 has to be occupied more quickly than currently envisaged then some temporary parking solutions (or phased moves) may be needed for a few months to manage the lag in the former leisure centre site being available while the old centre is demolished. However, based on current assumptions about how long commercial office space may take to fill up, this should be possible to manage.

G. Next Steps and Recommendations

1. As at earlier stages, the next steps for the project need to strike the necessary balance between:

    - ensuring a return on the investment in the project to date;
    - maintaining the necessary flexibility and pace to the project to mitigate certain risks;
    - allowing the Council to confidently seek partner sign-up and external funding; and
    - ensuring that the Council does not expose its taxpayers to unnecessary financial risks.

2. For that reason, the recommendations in this report suggest a balanced approach between maintaining pace and protecting the taxpayers' interests.

3. Engagement with partners will also need to continue. As well as public sector partners and funders, there will be a need to engage site neighbours, the skatepark users, Sport England and the national governing bodies for specific sports. In respect of the latter, a positive follow-up meeting has been held with Sport England and England Athletics to discuss the implications and opportunities of the project for the track. England Athletics have offered to represent the athletics clubs and users in the project, and this model of liaising through the national bodies is also proposed for other sports such as swimming.

4. Although formal marketing of the site would not take place until it was under construction, further work will also take place by the Council's Growth Team to identify the opportunities for the skills and employment elements of the scheme. As well as working with the LEPs, this work will engage education partners. Before marketing begins, a name for the scheme will be needed because WWD only describes the project not the outcome.

5. Also, as explained in the OBC and FBC, there is always the worst-case fall-back position of disposing of the site which will be easier with the benefit of the planning consent now obtained.

6. As agreed in January 2020, Cabinet will approve the final appointment of a contractor.

7. It is therefore **recommended** that:

    1. this review and update of the business case for the Western Way Development (WWD), Bury St Edmunds and, as part of that wider scheme, the replacement of the Bury St Edmunds Leisure Centre, be approved so that Cabinet and officers can continue to deliver the project on the basis set out in the approved outline and final business cases, the external assurance review, this review and the Council's Constitution;

    2. the existing financial provisions, safeguards and financial tests for delivery of the project agreed by Council on 19 September 2019, and clarified through the action plan of the external assurance review approved by Cabinet on 14 January 2020, be reaffirmed subject to:

a. it being noted that that the project may now need to be delivered in phases if required;

b. the £27.9 million capital expenditure limit for the replacement of the leisure centre being replaced by a new condition that this element of the scheme is capable of achieving at least a break-even position as defined in appendix 1 to this review document;

c. public sector partners seeking more than 200 square metres of exclusive floorspace also being required to agree heads of terms and formal pre-let agreement at the project gateways defined in Part E of this review; and

d. the revised timescales outlined in this review.