



Western Way Project Review December 2022



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Executive Summary

- 1 The Western Way (WW) project in Bury St Edmunds is part of a network of existing or planned community hub projects across the whole West Suffolk area which offers the opportunity to replace and upgrade the town's aging leisure centre.
- 2 The project was first approved for delivery by Council in 2019 and, since that time, has achieved planning consent and identified a preferred contractor. In 2021 it was agreed by Council to deliver the project in phases to reflect changed economic conditions. This is possible because the scheme involves the repurposing of a large steel-framed industrial building which, as well as saving money and carbon, offers great flexibility.
- 3 Recently, the NHS has confirmed that they are unable to be part of a phase 1 starting in 2023 as they need more time to complete their business case. In view of this, and wider economic pressures, Cabinet has decided to carry out an additional review before proceeding with the second stage of tendering in early 2023. This report provides that review.
- 4 The target phase 1 scheme approved in 2021, which used around two-thirds of the capacity of the planning consent, included a large NHS clinical facility and public sector and commercial offices alongside a new leisure centre. It was estimated to cost £91 million if delivered in 2023. Adjusting for additional inflation since that time, this scheme would now be likely to cost over £100 million.
- 5 With no NHS facility required in phase 1, and with no external support to underwrite the income risk of investing in commercial offices, it is proposed to reduce the size of the initial scheme further, to around 40% of the planning consent. Compared to £100 million, this new proposed hub scheme could potentially cost around £61 million in total, just under £40 million of which relates to the new leisure centre. The additional £21 million would deliver a large renewables investment (around £10 million) and hub facilities for West Suffolk Council (£5.7 million) and, potentially, Suffolk County Council (£5 million to £6 million) on a break-even basis.
- 6 In this context, the income risk of the WW project has reduced considerably since 2021 because the Council is no longer having to borrow significantly on behalf of partners or looking to invest speculatively in commercial property which may take time to let. Instead, this is now mainly about investing in existing assets and important public infrastructure and, as such, the financial safeguards and modelling for the project can be adapted to reflect what is more of a known quantity.
- 7 If approved, the likely cost of a new leisure centre in WW has increased by £9 million since 2021. This is largely due to higher than expected inflation but also reflects a new indoor leisure facilities assessment completed in early 2022. This assessment showed that there was a need to expand leisure facilities in Bury St Edmunds to cope with expected population growth to 2040. The specification has therefore been amended, for instance providing an eight instead of six-lane main pool. Developer funding is likely to be available to meet this cost.

- 8 The Council's decision about the leisure centre remains a simple asset management one. Due to its condition, there is no do-nothing or spend-nothing option for Bury Leisure Centre and, as such, the Council has already made provision of £724,000 per annum in its medium-term financial strategy (MTFS) for tackling this issue irrespective of whether WW goes ahead (and this sum is already factored into budget savings targets). But given the wider financial pressures on councils and communities, Cabinet is of the view that this existing budget provision for the leisure centre cannot increase.
- 9 In the light of the additional inflation on all construction costs since 2021, this makes an even stronger asset management case for the leisure centre element of WW than in 2021. Not only does WW offer the chance to expand and integrate the new leisure centre but it is also considerably cheaper in revenue terms than any option involving the current leisure centre site; immediately and in the long-term, even after the site acquisition costs. This is not only because it avoids future inflation but also because the borrowing cost is offset by the benefits from renewable energy and larger income and savings for the operator. In contrast, whatever is done at the current leisure centre, refurbishing that will only keep the building going for another 20 years, without the same revenue benefits as WW. After which it will then need to be rebuilt on its current constrained site or at a newly acquired site. This asset management case reflecting the wider WW benefits can be summarised as follows (m=million):

	Initial Capital Cost	Total Capital Cost over 40 years	Total revenue cost over 40 years	Immediate revenue impact adjusted for WW benefits*
New Leisure Centre as part of Western Way and refurbish after 20 years. Recommended Option	£39.7m	£50.4m	£58.2m (£1.1m p.a. initially and £1.9m p.a. after 20 years due to refurbishment)	£0.724m p.a.
Major refurbishment of existing leisure centre. Then rebuild after 20 years.	£24.8m	£83.8m	£77.7m (£1.1m p.a. initially and £2.8m p.a. after 20 years due to newbuild)	£1.116m p.a.
Minimum refurbishment of existing leisure centre. Then rebuild after 20 years	£13.0m	£72.0m	£62.8m (£0.8m p.a. initially but £2.3m after 20 years due to newbuild)	£0.806m p.a.

*Current provision in MTFS is £0.724 million

- 10 There are other risks of delaying a replacement of the leisure centre. The WW site is available now and has planning consent and a partially

completed procurement exercise with a preferred contractor engaged. Inflation will also continue to increase in the coming years so the cost of any option will not go down. Interest rates are currently high. But, as a more conventional asset management investment for a council facility, the Council has different options for managing the borrowing cost of the leisure centre over 40 years, compared to borrowing for third parties or commercially. Finally, energy prices are at present very high due to the energy crisis which creates a significant financial and environmental incentive to move to a more modern building powered for large parts of the year entirely by renewable energy.

- 11 In addition to the leisure facilities that could be included in phase 1 of WW, there is also still a strong case to add the extra elements that turn it from a community centre into a community hub. Building on the successes of earlier projects at Brandon, Haverhill and Mildenhall leisure centres/hubs. An indicative £5.7 million is included in the interim cost plan for a small and complementary health facility, as at those other three leisure centres (which could be used by the NHS or other health providers), some essential council stores and a small amount of ancillary offices and flexible meeting spaces that were included in the original business case. This £5.7 million can be funded on a break-even basis, and at current interest rates, using savings/income and also surplus renewables income from the phase 1 scheme.
- 12 A further £5 million to £6 million could potentially be added to the budget to provide a new archive facility and/or a new, enlarged pre-school to the hub for Suffolk County Council (SCC). The former is currently the subject of a review which is examining the benefits of moving to WW compared to a refurbishment of the existing Raingate Street building. The latter has always been included as a SCC-led element of the phase 1 scheme. In both instances, any capital spending would need to be fully underwritten by Suffolk County Council. The County Council will make its final decisions on whether these elements are to be included in early 2023 ahead of any sign-off of the phase 1 scheme.
- 13 A separate business case will now need to be brought to councillors before the end of the phase 1 construction programme in 2025 for phase 2 of the scheme. There are multiple options for this under the current planning consent, and over half of the site is still available.
- 14 In relation to the 60% of the existing building frame that is not needed by phase 1, the report also explains that there is also the opportunity to make an additional interim investment of over £8 million in this part of the building in 2023. The case for doing this is a commercial asset management one as landowner. As it will ensure that all options are open for its future use, whatever the decision on and timing of the phase 2 scheme. These interim works will mainly be to replace its existing roof, which is at end-of-life, and to add solar panels. Both of which would be cheaper to do at the same time as the same works in phase 1. This budget could also cover the remainder of the acquisition cost of the frame in the Council's accounts. As with the community hub elements, the borrowing cost of this additional asset management investment can be covered

through renewable energy income and income after 2025 from either a phase 2 scheme or an interim use under an agreed phasing plan.

- 15 The review also takes the opportunity to simplify the project governance for WW now that there is only one potential external tenant. Existing project gateways can be replaced by two gateways, the first of which will be a Cabinet sign-off of the final budget ahead of the formal part of the second-stage tendering in March 2023. The second gateway will be the final award of contract in August 2023 under normal Constitutional rules, but only provided that the final budget is met.
- 16 Cabinet's authority to sign-off the final budget will be subject to the financial framework put in place by Council under this report. This retains the requirement that the impact of the leisure centre on the Council's budget must not exceed the current MTFS provision and, for all other elements, that they must at least break even for taxpayers over the life of the borrowing. To allow some flexibility in capital and revenue in the final stage of tendering, it is also proposed that the capital expenditure limits be set at £65 million for the phase 1 scheme and £10 million for the interim works to the rest of the site (£75 million in total compared to the original cap of £140 million). Authority will also be provided for carrying out enabling works from within either budget where these will add value to the site irrespective of whether WW goes ahead or not. For instance, essential re-roofing and adding renewables.
- 17 For the above reasons, it is proposed that a smaller phase 1 scheme for Western Way continues through to the second of stage of tendering, to allow a start on site in 2023 and a projected opening of new facilities in autumn 2025.

A. Background information and context for review

1 Purpose of report

- 1.1 The Western Way (WW) project in Bury St Edmunds 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.
- 1.2 WW was approved for delivery by Council in late 2019 and achieved planning consent in 2021 on the completion of its Section 106 agreement. After reviewing the impact of the Covid-19 pandemic, Council gave support for a phased delivery of the project in June 2021. In both instances, a set of financial tests were set to safeguard the interests of taxpayers. A final review of these tests by Cabinet is currently required before any contract can be awarded. This would not occur before March 2023.
- 1.3 Given the current economic situation and the changing requirements of partners, Cabinet has asked that an interim review of the status of the project be carried out before the end of 2022 so that Council can consider whether it wishes to continue with the current project. This report provides that review.

2 Why are we still pursuing the Western Way project?

- 2.1 WW has been in development for many years. For that reason, this report will only focus on what has changed since those earlier reports, and not revisit the approved strategic case for the scheme. That case is contained in the previous reports detailed in the background information section of the covering report. Nonetheless, from a strategic point of view, delivery of WW is as important as ever given the positive impact of the programme to create community hubs across the whole of West Suffolk. Specifically, in the case of WW the full scheme is capable of:
 - addressing the internal asset management need to renew the existing leisure centre (for which there is no 'do nothing' option)
 - delivering the agreed masterplan for the site
 - securing the future of local community facilities (health, leisure and skills)
 - creating new employment space and jobs; and
 - increasing partnership working with other organisations under the One Public Estate Programme and, in particular, strengthening integration with NHS partners.

3 Council review of business case - June 2021

3.1 When Council last considered the scheme in June 2021, the following was agreed:

- (a) a phased approach to delivering the full planning consent would be taken; focusing more in the immediate post-covid period on known public sector demand given uncertainty about the demand for commercial office space;
- (b) a target phase 1 scheme of around 14,500m² of operational/lettable space¹ (two thirds of the allowed capacity of the site) estimated to cost up to £95 million at that time; with a leisure centre of around 7,000m², 3,250m² of clinical space for the NHS and 4,500m² of offices (two thirds of which were envisaged for the public sector);
- (c) financial safeguards including a requirement for partners to have signed up to various legal agreements at defined gateways and to meet their share of project costs from 2021 onwards; and
- (d) sign-off by Cabinet before final contract signing to ensure these tests were still being met.

4 Where had we got to by summer 2022?

4.1 As a reminder of information shared in various councillor updates, in summer 2022 the status of the project was as follows:

- (a) a new leisure needs assessment was completed for West Suffolk which, among other things, showed that an eight lane main pool was required to cope with future population growth. This fed into further refinement of the leisure centre specification and also means we have the ability to seek s106 contributions from developers in the catchment;
- (b) Morgan Sindall were selected as the preferred contractor after a competitive first stage tendering process, and engaged to work with us and the design team on the second stage under a Pre-Construction Services Agreement (PCSA). This has been very successful with substantial value engineering savings and inflation mitigation measures identified giving us continued confidence that the financial tests could be met;
- (c) the NHS were fully engaged in the project through the required collaboration agreement and were seeking approval of a business case for around 5,000m² of clinical and office space.

¹ Excluding circulation and ancillary facilities

5 What is the current status of the project?

5.1 WW is being progressed in a challenging economic environment. This has obviously affected the project, along with all other construction schemes. The remainder of this report looks at this in detail but as a brief summary:

- (a) We still have to tackle the condition of the existing leisure centre. In asset management terms, there is no 'do nothing' option;
- (b) as publicly announced in September, the NHS require more time to complete their business case for WW due to new financial rules introduced in 2022 and have indicated that they will not be able to join the project in phase 1;
- (c) given national and world events, estimates of construction inflation have continued to rise (by a further 10% since the 2021 estimates) and borrowing rates for local authorities have increased significantly (from under 2% in early 2022 to over 4% as at the end of November 2022). A significant cost mitigation plan is in place for the scheme working with the preferred contractor (value engineering, accelerated programme, forward buying, etc). This also vindicates the re-use of the existing steel frame and concrete pad.
- (d) energy costs affecting the project and the current leisure centre have risen considerably. However, plans for renewable energy in the project have also increased including taking advantage of an opportunity to export surplus energy to the grid;
- (e) Suffolk County Council are investigating the potential to relocate the West Suffolk branch of the Suffolk Archive to WW as an alternative to refurbishing their current premises;
- (f) there is an increased community requirement for spaces in the pre-school already in the phase 1 scheme and this could now be more integrated in the hub rather than standalone;
- (g) the latest market analysis report shows that there continues to be a demand for high quality office in Bury St Edmunds but, in the current economic conditions, this speculative investment would be a higher risk under the financial tests set for WW;
- (h) users of the skatepark have been kept informed of plans and feedback received at the time of the planning application from track users has been accommodated in the latest designs;
- (i) the Department for Education has completed its works to upgrade the Beetons Way junction serving the new sixth form and these works have included the required additional capacity for WW to avoid future disruption and offer economies of scale (using a contribution from the Council agreed in the WW business case);

- (j) although a separate project, the links between the WW hub and West Suffolk House have been considered so that the capacity of the latter is fully used by the public sector before any new offices are considered (which links to point (g) above).

6 What do we need to establish in December 2022?

6.1 To help councillors decide whether or not to continue with the project, the remainder of this update is structured around answering the following questions:

- (a) Is it still the right time to start the project? (Section B)
- (b) Is this still the right place for the phase 1 scheme? (Section C)
- (c) What can we afford in phase 1? (Section D)
- (d) Does the leisure centre business case still stack up? (Appendix 1)
- (e) What else other than the leisure centre could be in Phase 1? (Appendices 1 and 2)
- (f) What will happen with the rest of the site? (Appendix 3)
- (g) What changes are needed to the project framework? (Section E)
- (h) What are the next steps? (Section F)
- (i) What is the latest risk assessment? (Appendix 4)

B. Is it still the right time to start the project?

1 One option available to the Council would be to pause or stop the project. So, it is important to examine the reasons why carrying on with the original timetable for a smaller phase 1 scheme is a valid choice. Some of this reasoning is specific to the asset management case for the leisure centre which is covered in more detail later in the report. But, in general terms, the case for continuing is as follows:

- (a) There is no do-nothing option for Bury St Edmunds leisure centre and also still a compelling asset management/operational case for taxpayers (which is explained later in this report). As such, there is already provision in the Council's medium-term financial strategy for this work. In simple terms, the decision about phase 1 of WW is now fundamentally a decision about continuing to provide a leisure centre in Bury St Edmunds (in contrast to the earlier decisions on WW which involved significant third party and commercial investments which are no longer in phase 1).
- (b) As will also be shown later, the financial tests set for the project since 2019 will continue to apply, even with higher interest and inflation rates.
- (c) While inflation is projected to slow in future years, there is no forecast of deflation, so prices will continue to rise. In essence, the cost of tackling the leisure centre is going to be the cost whenever the Council takes it on, and it will not be likely to go down from today's prices. In fact, while deferring the project would postpone further project costs of over £2 million to get to the point of starting

on site, that delay would just add further inflationary pressure. Not only to those project costs themselves but to the overall capital cost of the contract. It could also add avoidable additional costs to the project/Council's budget, as explained below.

- (d) Only stopping altogether would avoid the further project costs. But stopping altogether would crystallise non-recoverable abortive costs for some of the work to date.
- (e) These abortive costs would include the considerable work undertaken to select and acquire a preferred contractor. Who fully understands the project and is highly motivated to start on site in 2023 by ensuring the project remains affordable (as evidenced by their engagement to date in value engineering and the flexibility shown after the withdrawal of the NHS from phase 1).
- (f) Following on from (e), the WW contract has performance indicators for the main contractor which seek to maximise the regional benefits of the work (the 'Suffolk Pound' initiative). So, hopefully, the Council continuing to invest in projects will assist the local economy during the current recession.
- (g) In contrast to inflation, interest rates are expected to peak in 2023, before the Council would first have to borrow for WW. The internal nature of the phase 1 project also creates different opportunities for treasury management, which will be explained in later sections (as opposed to a situation where the Council would be borrowing on behalf of partners).
- (h) The site is available now, and completely vacant from spring 2023. Seeking tenants for the phase 1 portion of the site would also require significant repairs and refurbishment which could be abortive unless the WW project was delayed for many years. In contrast, there is going to be a need to carry out repairs to the phase 2 portion of the site in the next year in any event (and these are factored into the recommendations in this report).
- (i) Delaying to allow the NHS process to be completed is risky for all parties. There is no guarantee of how long their business case process will take or what the outcome will be. Similarly, no phase 2 scheme would be available for the NHS to join if phase 1 is not viable and delivered.
- (j) Finally, starting phase 1 in 2023 potentially unlocks other additional benefits to the Council's budgets which are explained later.

- 2 In conclusion, it is felt that there remains a strong case to maintain the current pace of the project and start on site in 2023 if the financial tests continue to be met.

C. Is this still the right place for the phase 1 scheme?

- 1 In a phased approach, this is the right question to ask. Both in terms of the whole site and in relation to the position of the leisure centre within it. Again, some of these factors are specific to the asset management case for the leisure centre which is covered in more detail later in the report. A detailed site evaluation in terms of accessibility was also carried out for the earlier business cases, and that also still applies. However, in general project terms, the case for sticking with the current site is as follows:
 - (a) If pace is important, the current scheme is the only way now that we could start building a new leisure centre in 2023 (due to the time that would be needed for new re-design, planning and procurement processes).
 - (b) The current scheme offers the scope for expansion of the leisure offer and the creation of an integrated hub in phases 1 and 2. The ability of Suffolk County Council to join the phase 1 hub will also be time-limited given their operational and asset management considerations.
 - (c) Moving to a different location altogether would require the acquisition of a large site and a new planning process (which would also apply if we deferred a relocation for 10-15 years, as the WW site would no longer be available).
 - (d) There is no such site currently allocated in the emerging draft local plan and in planning policy terms it may be sub-optimal (in terms of accessibility and integration). Keeping the leisure centre at WW is therefore likely to be the best spatial option in planning policy terms, as well as operationally and commercially because of the day-time use by nearby educational establishments (particularly the College).
 - (e) Trying to replace the leisure centre on its current site will lead to a two year closure, and constrain expansion and integration opportunities. This has significant revenue implications but also strategic disbenefits because of the number of people denied access to health activities (particularly in relation to swimming and swimming lessons). It would also still require access to overflow parking at peak times on the wider WW site (currently provided by Olding Road car park) which would need to be factored into any alternative use or disposal.
 - (f) The proposed design gives the leisure centre maximum prominence (important commercially but mainly for promoting healthy activities) and overcomes the issue of having to relocate the skatepark (which can also be expanded and fully integrated).
 - (g) It also allows 'docking' of the wet-side extension with the existing frame which is well proportioned for dry-side leisure uses, and easier sharing of plant and renewables. The re-use of the frame and concrete pad also have significant environmental as well as financial benefits.

D. What can we afford in phase 1?

1 What will we know about costs and when?

- 1.1 Since councillors will be kept involved in the design process through briefings and in their separate local planning authority role, the purpose of this report is not to update significantly on design matters.
- 1.2 In general terms, the decision of the NHS not to join the project in phase 1 has required a re-design of some of the existing phase 1 scheme and some of the site infrastructure (although a significant proportion is still carried forward). This work is still underway with the design team and preferred contractor, and will reflect the flexibility of the existing frame and our planning consent, the final requirements of partners and the pursuit of value engineering to keep the cost down. However, this can still be completed to allow a start on site in 2023 and completion in 2025 as originally planned.
- 1.3 Certainty on the cost of the project was always going to come at the end of the second stage of tendering in 2023 when we have agreed with the contractor and partners a final scheme which has been subject to full market-testing and is signed off by the Local Planning Authority. Until then, the imperative is to know that viability is still attainable and that we can continue to justify incurring design and other project costs (over £2 million more before we start to build, given the scale of the project).
- 1.4 In terms of that viability, in keeping with the earlier business case reports, the main thing at this stage is understanding what the Council can still afford to spend. Doing so means that the consultants and contractors are able to work to an updated budget which not only reflects competitive benchmarks for equivalent projects at forecast 2023 prices but the Council's available revenue budget to support borrowing. In that way, there will be a far greater chance of meeting the financial tests set by the Council in 2023 and starting the works on time.

2 What can we still afford?

- 2.1 Cabinet and officers are acutely aware that this decision on WW is coinciding with a period of extreme pressure on public sector, business and household finances. It has been explained in the previous section why carrying on with the project at such a difficult time can still be justified given the risks of delay. But it is equally important that WW does not make the Council's overall budget challenges any harder and, for that reason, that:
 - (a) the original financial tests for WW continue to be met; and specifically
 - (b) the existing provision in the Council's Medium Term Financial Strategy for the asset management cost of the leisure centre is not increased.

- 2.2 In simple terms, therefore, what the Council can still afford is a scheme which is consistent with the provision already in the current MTFS (£724,000). Which has been the case since the final business case in 2019 but may now require an even more risk averse approach.
- 2.3 In respect of risks, what has changed since the last review in 2021 is the scale of the phase 1 project and the challenges associated with the income and borrowing:

	Target Capital Cost in June 2021	Target Capital Cost in December 2022
Phase 1 scheme envisaged in June 2021	£91.2 million (mid-range) ²	£100.4 million (Adjusted for current inflation)
Phase 1 scheme now envisaged	n/a	£61 million ³
Reduction		39%

- 2.4 Alongside that drop in spending, the income risk associated with the total investment has also reduced. In simple terms, phase 1 is still about the Council investing in its own services (the leisure centre). But phase 1 doesn't now involve any significant borrowing on behalf of partners or, at risk, to achieve commercial income. This is because the large health facility and any commercial offices will be part of later phases. So, while risks remain, they are considerably reduced at the current time and the investment is much more of a conventional asset management decision. Part of this reduction also relates to the ability to defer some of the site infrastructure required by the planning consent until phase 2 e.g. some of the on-site parking.
- 2.5 This change in risk also changes the way that the Council can look to borrow for parts of the scheme. So that we can apply the necessary pessimism bias, elements of phase 1 that are ancillary to the leisure centre, or delivered for partners, will continue to need to break even against the current Public Works Loans Board (PWLb) rate (4.20% for 40 year borrowing at the time of writing this report).
- 2.6 However, as explained, funding the leisure centre replacement itself is now simply a direct cost of owning an operational asset. In that context this report maintains the borrowing rates for the leisure centre element of the build as per the June 2021 FBC – this being a rate of 2.50%. The cost of borrowing, at the point funds are required to manage the Council's

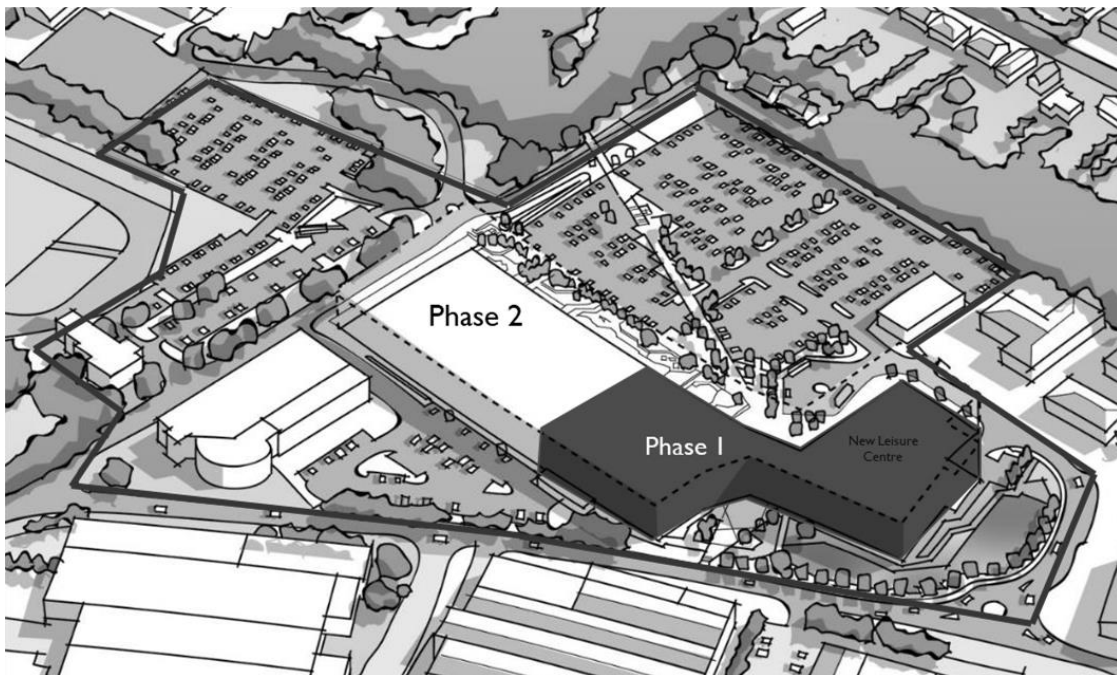
² Capital limit for whole scheme with planning consent was set at £140 million.

³ This is the full cost of phase 1 works including renewables and also the elements of the hub that, if they went ahead, would be funded by Suffolk County Council. See later sections and appendices 1-3

overall treasury management activities, will now be managed within the Council's overall interest payable budgets, this assumption is being factored into the 2023 to 2024 budget setting process.

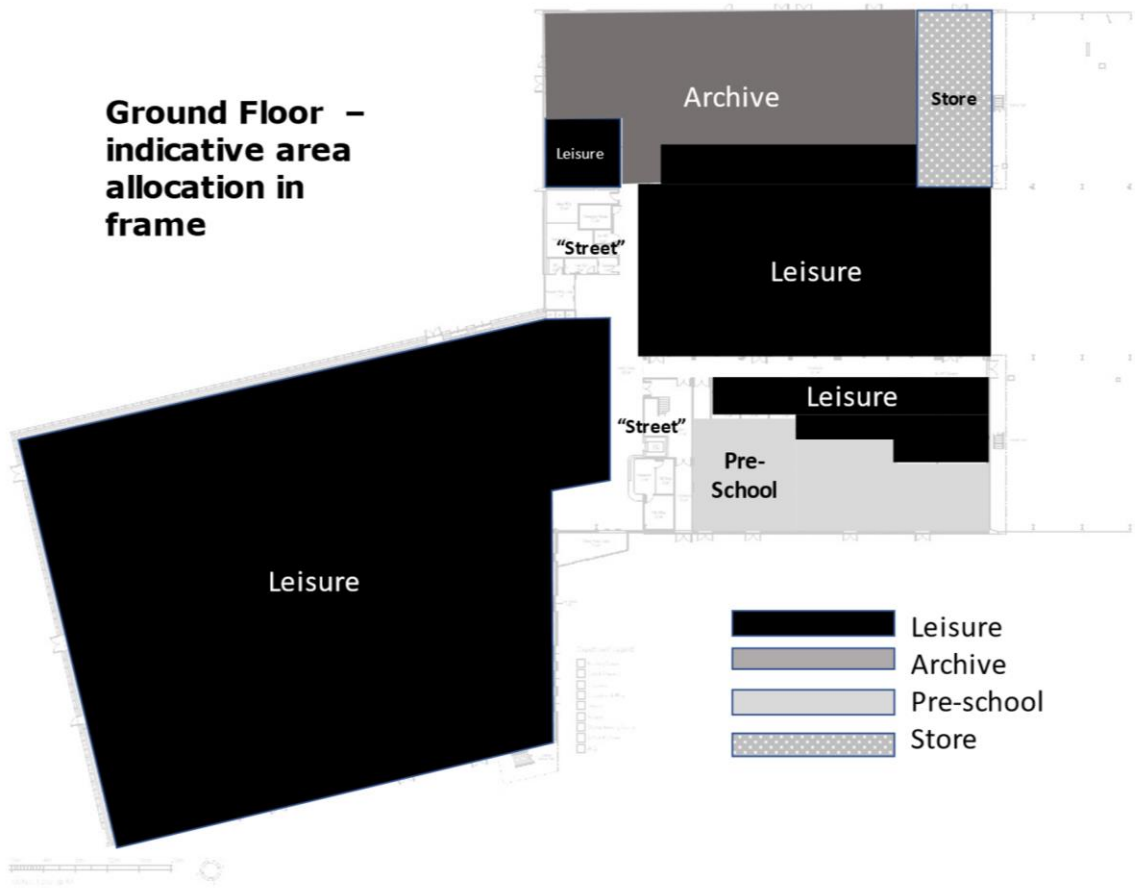
3 Context for understanding the cost of the new phase 1 scheme

- 3.1 Explaining the viability of the scheme is easier if the physical scale of the new phase 1 scheme is understood, as well as the relative cost.
- 3.2 Firstly, to give a visual sense of the scale of what is included, the illustration of the scheme with planning consent below shows approximately the proportion of the frame/site currently required for the phase 1 scheme (shaded black). Around half of the parking capacity with consent (just under 1,400 spaces) is also required (including what is needed for West Suffolk House under the new parking standards). Some of the highways works required for the full scheme are likely to be deferred until phase 2 because phase 1 will not generate much additional traffic and, mainly, be about redistributing existing journeys to and from the leisure centre.

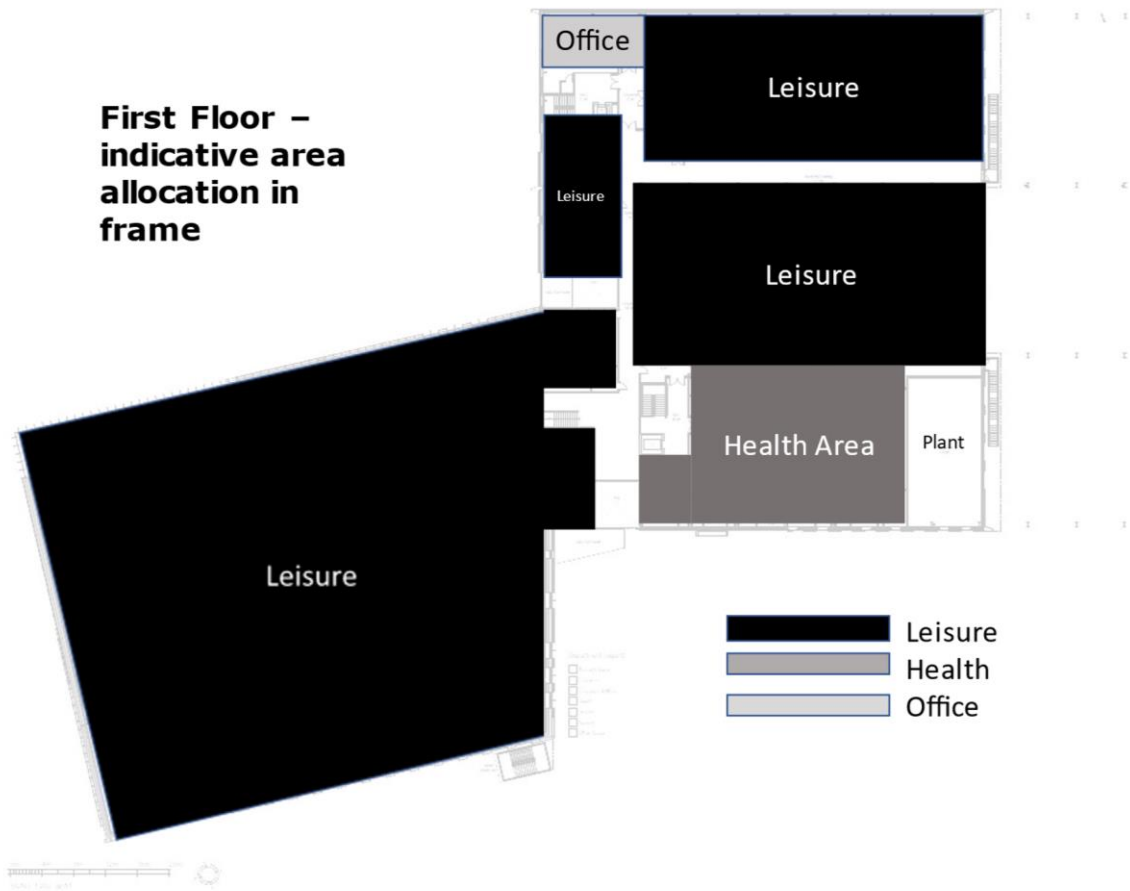


- 3.3 Inside the hub itself, the two diagrams overleaf give an indicative layout for the new phase 1 facilities which are explained later in the report (although this is subject to change in the coming months). As can be seen, the bulk of the accommodation is now a leisure centre complemented by the other small elements that we have seen work well in the Mildenhall, Brandon and Haverhill leisure centres/hubs.

**Ground Floor –
indicative area
allocation in
frame**



**First Floor –
indicative area
allocation in
frame**



- 3.4 The proposed reduction in the amounts of income-earning operational space in the new hub building can be summarised as follows (m2 = square metres):

Space	Available under the full scheme with planning consent (m2)	Envisaged for phase 1 in June 2021 review (m2)	Proposed for phase 1 in Dec 2022 Review (m2)
Leisure centre	6,195	6,695	6,472
Clinical health space	4,239	3,250	568
Other public sector space (incl pre-school)	5,259	2,500	1,631
Commercial office space	5,969	2,000	0
Total	21,662	14,445	8,671
% of what is allowed	100%	67%	40%

- 3.5 As can be seen in the layouts, the phase 1 scheme is highly integrated which drives its efficiency as a building. But in terms of how it is financed, and to provide an interim appraisal of the costs and risks, it can be split into two constituent parts. Namely:
- (a) the hub the Council will build as landlord to meet its own service specification for the new leisure centre, including the new athletics pavilion and the renewable energy for phase 1; and
 - (b) two other elements of the phase 1 community hub potentially required by Suffolk County Council.
- 3.6 As a third element, there is also a need to look at interim asset management costs associated with the remainder of the WW site pending phase 2 (the unshaded area on the site drawing at para 3.2 above).
- 3.7 Each of these three elements need to be viable in their own right, independent of each other and of any further income estimated from phase 2. Any business case for a phase 2 scheme would then be brought separately to councillors at a later date.

- 3.8 Appendices 1-3 of this report provide the current context for each of these three separate elements of the new capital limit proposed in this review. A final and detailed financial appraisal will then be provided in the final sign-off report considered by Cabinet in 2023.

4 Summary of interim financial model

- 4.1 In general terms, and adjusted for inflation and higher interest rates, the expenditure required in the initial capital project for WW is significantly smaller than the one last considered by councillors in 2021. Moreover, this is predominantly now a conventional asset management decision for the Council, with the previous elements of investing in un-let commercial offices or on behalf of the NHS removed. Finally, despite higher inflation and interest rates, the latest due diligence shows that the financial tests continue to be capable of being met, without any need to increase the Council's existing MTFS allocation of £724,000 p.a. for the replacement of the leisure centre (which wouldn't be the case if we attempted to refurbish the current centre as other benefits would not be available to mitigate the cost). More detail behind these conclusions is set out in appendices 1-3.
- 4.2 In summary, and using the latest estimates ahead of confirmation in the second-stage of tendering:
- (a) Building a new and larger leisure centre at WW will now cost around £39.7 million. With a 20 year refurbishment, this option will have a total capital cost of around £50 million over 40 years. That £50.4 million capital will have a revenue cost to the Council over 40 years of £58.2 million (this includes repayment of capital borrowing).
 - (b) In contrast, fully refurbishing the existing but smaller centre now and deferring its replacement for 20 years will cost around £84 million (£24.8 million initially and around £60 million in 20 years allowing for inflation). At a revenue cost over 40 years of £77.7 million. Even a light touch refurbishment would cost more in total than the WW option (see Appendix 1).
 - (c) £32.75 million of this £39.7 million cost can still be supported by the Council's existing MTFS provision of £724,000 for the leisure centre, savings in the management fee and s106 funding.
 - (d) The remaining £7 million can be supported by net income from renewable energy income.
 - (e) If the Council chose instead of WW to stay on the existing leisure centre site and make that fit for purpose it would need to increase its current MTFS provision from £724,000 to at least £806,000 in 2025, increasing to £2.32 million after year 20.
 - (f) Renewable energy income and rents/savings can also support the addition of £5.7 million of ancillary facilities to turn the new leisure centre into a community hub as has already been done in Haverhill, Mildenhall and Brandon (see Appendix 1).

- (g) Suffolk County Council's two potential elements in the phase 1 scheme would be entirely cost neutral to West Suffolk Council if they proceed (see Appendix 2).
 - (h) If SCC are able to join the project, the new phase 1 scheme is currently forecast to require gross expenditure of £61.0 million (over £5 million of which would need to be met by SCC).
 - (i) Accordingly, a suggested new capital limit of £65 million is suggested for phase 1 to allow for flexibility around additional costs and income in the second stage tendering under the existing financial tests agreed by Council.⁴
 - (j) Up to a further £10 million (current estimate £8.25 million) is envisaged for interim works to the remainder of the site (see Appendix 3). These can also be financed from additional renewable energy income and any rent that would be generated from doing them pending phase 2.
 - (k) The combination of the phase 1 works and interim works means the original cap on capital spending on the scheme of £140 million can be reduced to £75 million.
- 4.3 This position can be illustrated in the following table which shows what the Council can afford to borrow, and the current target costs and income estimates behind that. Although they include contingencies and allowances for inflation and design development, these figures will continue to evolve through the second stage of tendering and are, therefore, indicative at this stage. For instance, there is a target of 1% for additional savings from value engineering, economies of scale, project costs and, if needed, scope. The final model will be confirmed in the final report to Cabinet in 2023.

⁴ Under these rules, if £65 million was required, then there would need to be additional third party funding or extra income or savings which could cover the additional £4 million.

	Indicative total capital budget	Estimated revenue contribution	Capital funding/ Borrowing supported by revenue
Phase 1 Hub: WSC Elements (Appendix 1)			
Leisure centre and café (including acquisition costs and expected s106 funding)	£39.7m	£0.724m* (MTFS provision)	£32.75m*
		£0.475m (Benefit from leisure provider)	
Other Hub Elements: Health and well being facility, stores, ACL office, meeting spaces (including acquisition costs)	£5.7m	£0.24m	£4m
Remediation of council depot site	£1.1m	-	£1m
Phase 1 Renewables	£9.6m	£0.98m	£18m
Targeted further savings of 1% in second stage process	(£0.5m)	-	-
WSC Sub-Total	£55.6m	£2.42m Net £1.94m after benefit from leisure provider	£55.75m

Phase 1 Hub: SCC Potential Elements (Appendix 2)			
Potential archive and pre- school (NB final sum subject to specification)	£5.4m	-	£5.4m
SCC Sub-Total	£5.4m	-	£5.4m

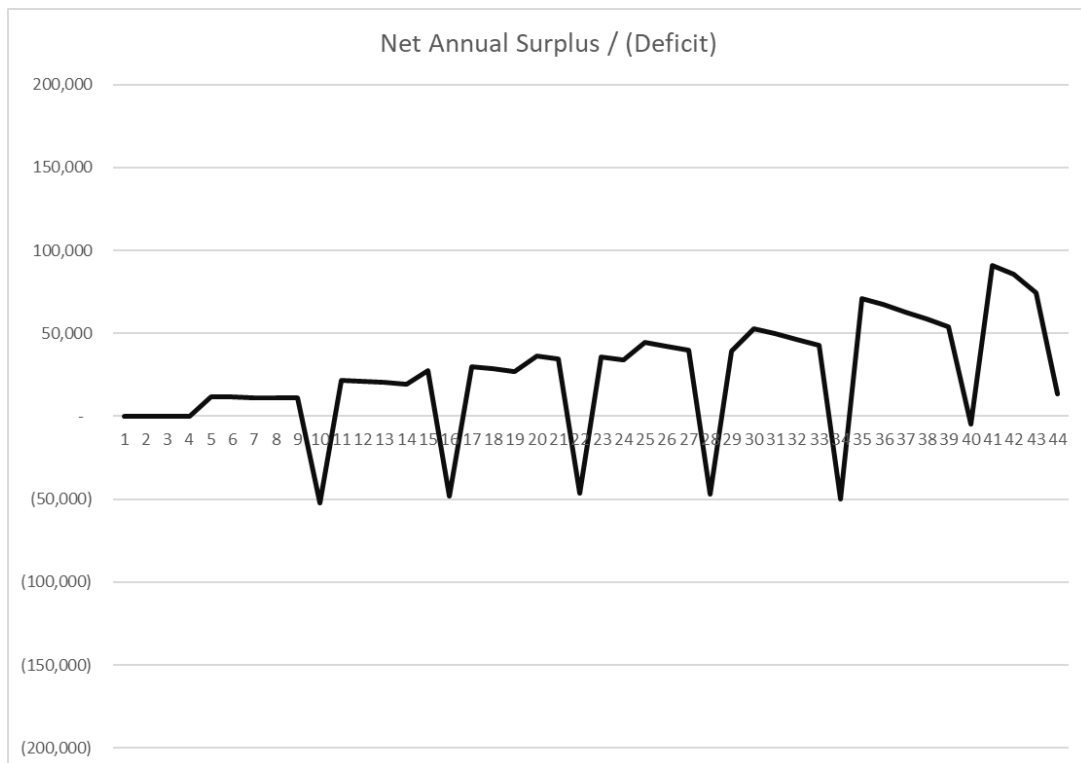
Total for Phase 1 Scheme	£61.0m	£2.42m	£61.15m
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Interim Works to the Remainder of Site (Appendix 3)	£8.25m	£0.47m	£8.5m
Grant Total for Three Separate Elements	£69.25m	£2.89m	£69.65m

£m = £ million

*Retaining existing MTFS provision agreed in 2019 so as
not to increase savings requirement in wider budget

- 4.4 To assess 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 (see below). This cash flow forecast includes assumptions around void and rent-free periods for the small office/meeting room element and inflationary increases in some rental streams.



Assumptions and Notes:

- Minimum Revenue Provision starts in financial year after construction completion for 40 years.
 - Rental income for all elements starts from day 1.
 - Lease term for offices/meeting spaces of 5 years, with 1 year void or rent-free period after completion of each lease.
 - Borrowing costs can be fixed and will stay the same for the life of the loan.
 - Rental income increased by inflation after 5 year rent reviews for each lease.
 - Borrowing costs based on 40 year borrowing, using the annuity method at an interest rate of 2.50% for the leisure centre elements and 4.50% for the other elements.
 - Years 1 – 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.
 - Tenants meet service charges separately at full cost recovery.
- 4.5 The cash flow forecast above shows that, over the course of the whole project, it could potentially generate a total surplus of up to £1.1 million

(on a non-discounted cash flow basis). However, this is obviously a forecast based on the illustrative phase 1 scheme and would need to be kept under review.

5 Project Costs to date/abortive costs

- 5.1 Council last reviewed the project costs for the scheme in June 2021, when the project was about to start the work required for tendering. At that time, it was estimated that, due to the large scale of the phase 1 scheme, it would cost up to £5.7 million to get the project to the point of construction (staff time, design, project management, surveys, cost advice and the PCSA with the preferred contractor). The collaboration agreements with partners ensured the risk of these costs were shared.
- 5.2 Net of the NHS' contribution to their costs since 2021, the Council's own project costs to date since June 2021 have been £930,000. The remaining costs are now estimated at over £2 million, reflecting the smaller scheme.
- 5.3 Although this amount forms part of the overall agreed capital budget allocation for the project, given we are still at the pre-construction stage, this amount will continue to be underwritten by existing revenue reserves (the capital project financing reserve). This approach is designed to manage the revenue impact of potential abortive costs, should the project not proceed.
- 5.4 These sums are included in the latest cost plan set out above, and the likely phasing reflected in the notional cashflow.

6 Other benefits and safeguards

- 6.1 The above summary is for a self-contained project. This is important to ensure the agreed financial tests can be met. However, there are additional potential benefits and safeguards for taxpayers from the new approach being proposed:
 - (a) Even with a significant facility in phase 2, it is unlikely the 200 plus parking spaces that we have consent for in a new staff car park at Anglian Lane (on the site of the former discount warehouse) will now be needed until the very final stage of a phasing plan to deliver the full consent (and its 1390 parking spaces). As such, the Council can continue to rent the building and site in the interim period. It is not suggested that any net income from this site (after acquisition or upgrade costs) is included in the phase 1 WW budget and, therefore, this would contribute to the Council's wider budget.
 - (b) As explained in Appendices 1 and 3, there is also scope to install PV across a large part of the WW site before phase 1 opens in 2025. In relation to the phase 1 site, this early installation will help with the cashflow of the project. In relation to the remainder of the WW site, however, any surplus income from PV after the phase 1 project and running costs have been met, will contribute to the Council's wider budget.

- (c) Surplus renewable energy from the WW site will also increase the Council's options in terms of obtaining price certainty for the power used in other public facilities (as well as assisting the WW business case). Because the Council can determine where this energy is used in its own estate at the agreed unit rates. So, as an example, one potential use for the surplus energy from the WW site is West Suffolk House. This also importantly contributes to the Council's net zero work for carbon.

E. What changes are needed to the project framework?

The final business case, and subsequent reviews of it, provided an extensive project governance framework for WW. That remains largely in place and does not need updating. However, the change in phasing approach, and the need to maintain pace on the project, mean that some adjustment is needed to the way the project will be delivered and how certain decisions will be taken. Which are explained in this section of the report.

1. Safeguards and delegations

- 1.1 Delivery of the project by Cabinet was subject to a series of gateways and financial tests set by Council. These related to earlier versions of the scheme and different forms of partner involvement and associated risks. Provided these tests continue to be met, Cabinet and officers remain authorised to deliver the project described in the final business case, and seek external funding, without reference back to Council.
- 1.2 If Council agrees through this report to continue with the project, it is suggested that the previous financial tests and approvals be replaced with the following framework:
 - (a) A requirement for formal pre-let agreements for the archive and/or pre-school before any construction contract is signed;
 - (b) A lower cap on gross capital spending of up to £65 million for the phase 1 scheme i.e. project costs, enabling works, initial community hub in phase 1 and renewables. This sum is before receipt of third party funding e.g. any capital contribution from s106 or SCC;
 - (c) in addition to this cap, the whole phase 1 scheme must still meet the existing financial tests over the life of the borrowing i.e. that it does not change the current MTFS provision for replacing the Bury leisure centre and, in relation to ancillary elements of the hub, at least breaks even;

- (d) a further allocation of up to £10 million being made in the capital programme for interim works to the remainder of the frame to maintain its value as an asset and generate renewable energy;
- (e) these interim and any phase 1 enabling works will be allowed ahead of the main contract where these works will increase the commercial value of the site irrespective of whether the WW project proceeds or not;
- (f) any phase 2 scheme will be subject to a new and separate business case to councillors before the conclusion of the phase 1 scheme in 2025.

2. Revised target programme

2.1 As an update from the 2021 target programme, the following is now targeted if Council agree to continue the phase 1 scheme:

- (a) Complete RIBA Stage 3 & 4 Design – 14/4/23
- (b) Complete 2nd stage tender / PCSA period – 24/7/23
- (c) Client Approval – 14/08/23
- (d) Start Construction work onsite – 11/09/23
- (e) Complete Section 1 (Leisure, Hub and external works to West of Beetons Way) – 6/6/25
- (f) Allowance for float and commissioning/testing– 3 months
- (g) Potential earliest opening of facility – September 2025
- (h) Completion of Section 2 (work to East of Beetons Way/ Old Leisure Centre) – End 2025/ Early 2026

2.2 This represents a 4-6 month delay on the programme envisaged in 2021 but this programme now includes a longer float/commissioning period for the leisure centre.

3. Project gateways and sign-off linked to new programme

3.1 Five project gateways were incorporated in the due diligence for WW agreed by Council in June 2021. These were primarily designed to assist the project partners manage the practical implications and risks of the larger shared scheme. As such, they are no longer relevant because the initial scheme is now primarily going to be the Council's own project. It is therefore proposed that the remainder of the previous gateways be replaced with the following simpler, and more conventional, route to contract sign-off:

	Design and Procurement	Partner sign-up	Target Date and Governance
Gateway 1	Sign off RIBA 4 "developed design" and final budget prior to full second-stage market testing and procurement of works packages	Heads of terms (SCC)	14 March 2023 Cabinet decision provided tests set by Council on 13 December 2022 are met

Gateway 2	Sign off final Contractor's Proposals and enter into Contract	Pre-let agreement (SCC)	14 August 2023 Implemented by officers in accordance with the Council's Constitution and in consultation with designated portfolio holders provided the 2 nd stage tender figure is within the limit agreed by Cabinet at Gateway 1
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- 3.2 The reasoning for this proposal is that, by 14 March 2023, the decision of SCC on their two elements will be known and all if not the majority of the RIBA Stage 4 technical design for phase 1 will be complete. Furthermore, under the Pre-Construction Services Agreement, there will already be a detailed target cost plan for the scheme developed with the preferred contractor after early soft market-testing with their supply chain. As such, it will be fairly binary from this point onwards whether the Council will be in a position to sign a contract in the summer or not i.e. the formal procurement and contract negotiation will come in within budget or it will not. Which is how large Council capital projects are conventionally managed within the Council's constitution i.e. Council approves a business case and final budget and the project is then implemented within those boundaries by Cabinet and officers. However, if the budget cannot be delivered, the project would simply be referred back to Cabinet/Council as required.

4. Phase 2

- 4.1 As mentioned previously and explained in Appendix 3, the Council has multiple options for the remainder of the site in a phase 2 scheme because of the flexibility of the current consent and frame. And Phase 1 is being designed to be either integrated with a phase 2 use of the rest of the frame, or to operate independently (with an internal wall as there is now between the former council depot and warehouse).
- 4.2 In addition to the phase 1 scheme, there is an asset management/investment case for some future-proofed interim works explained in Appendix 3. Otherwise, there is no need to commit at this point to a phase 2 scheme because the contractor will need to have control of the whole site during the phase 1 construction period (see Appendix 3). Accordingly, it is proposed that a business case for phase 2 is brought to councillors before the end of the phase 1 construction period and when we know the outcome of the NHS' business case process. In parallel to the NHS' own work, the Council will commission from the project budget some new market analysis so that the full potential of the site can be realised irrespective of the NHS' decision. As a target date, this work would be completed by the end of 2024 (9 months ahead of phase 1 finishing). The NHS will therefore be asked to confirm any request to be involved in phase 2 by the end of 2024.

F. Next steps and recommendations

- 1 As at earlier stages, the next steps for the project need to continue 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 current risks;
 - allowing the Council to confidently seek partner sign-up and/or 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. This would be achieved through the proposed top-level approach to delivering the project, namely:
 - (a) continue the Pre-Construction Services Agreement with the preferred contractor to complete the second stage of tendering;
 - (b) maintain the current financial tests for the final sign-off of phase 1 of the project;
 - (c) retain the existing MTFS provision for the leisure centre (£724,000);
 - (d) preserve as much of the current design and planning consent as we can through a revised phased approach, for a start on site in 2023;
 - (e) capitalise on any value engineering available from the different phasing (including deferred scheme overheads and infrastructure); and
 - (f) take interim steps with the remainder of the frame/site to ensure that the full scheme with planning consent is deliverable in a later phase but also that any holding costs are minimised (and immediate benefits are taken).
- 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 (who will engage local clubs).
- 4 As agreed in January 2020, Cabinet will still carry out the final review of the project before any final appointment of a contractor. This will now take place in March 2023 as part of the new gateway 1. No formal decision by councillors will be needed for gateway 2 in August 2023 if the final contract sum is in keeping with Cabinet's decision for gateway 1; officers will be able to sign the contract in accordance with the Constitution after consultation with the relevant portfolio holders.

However, if the final contract sum is not within budget in August 2023, then the project will be referred back to Cabinet in the first instance and, if required by the Constitution, to Council.

5 It is therefore **recommended** that:

- (1) this review and update of the business case for the Western Way (WW) project, 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 phase 1 of the project and any interim works to the rest of the site on the revised basis set out in this review and in accordance with the Council's Constitution;
- (2) the existing authorities, financial provisions, safeguards and financial tests for delivery of the project be updated as follows:
 - (a) the remainder of the due diligence for the second stage of tendering be carried out in accordance with the two new gateways defined in Section E of this review;
 - (b) for either facility to be included in the phase 1 construction contract, Suffolk County Council must have entered into a formal pre-let agreement for an archive facility and/or pre-school which meets the One Public Estate principles of full cost recovery;
 - (c) the previous spending caps and financial tests for the hub and leisure centre be replaced by a new combined and reduced net capital expenditure limit of £65 million for the total phase 1 scheme defined in this report i.e. project costs, market analysis, enabling works, construction of the initial community hub, installation of renewables;
 - (d) in addition to this cap on expenditure, at the time the main construction contract is signed, the phase 1 scheme must not increase the Council's existing MTFS provision of £724,000 for Bury St Edmunds Leisure Centre and, in relation to other ancillary elements of the new hub, be capable of achieving at least a break-even position over the whole life of the borrowing;
 - (e) in addition to the phase 1 scheme defined in the review, a further capital allocation of up to £10 million be made in the Council's capital programme for interim works to the remainder of the Western Way site as defined in Appendix 3 of this report and also on the basis of at least a break-even income position over the life of the borrowing;
 - (f) subject to consultation with the relevant portfolio holders, approval be given for interim or enabling works ahead of the main contract for phase 1, to be financed from within the new combined WW capital budget of £75 million. But

only where these works will increase the commercial value of the site irrespective of whether the WW project proceeds or not;

- (g) the cash flow risk being managed;
- (h) the most beneficial and economic funding method for the project is identified, including entering into agreements with third-party investors if required; and
- (i) any phase 2 scheme for a permanent use of the remainder of the WW site be subject to a new and separate business case to councillors before the conclusion of the phase 1 construction programme.

The phase 1 community hub: West Suffolk Council's own service specification

There remains a strong strategic and operational case to look at the phase 1 scheme as a community hub rather than just a leisure centre. With two potential exceptions explained in Appendix 2, this hub is now designed primarily around the Council's own service specification, and is intended to replicate successful hub and dual-use schemes at our other leisure centres. This council specification can be split into three elements:

1. the leisure facilities themselves;
2. the ancillary elements that make the leisure centre into a hub and meet other operational needs of the Council; and
3. renewable energy generation and storage.

1 The replacement leisure facilities

- 1.1 The challenges faced in regard to health inequalities and the impact of the Covid Pandemic and cost of living crisis means that opportunities for people to improve their physical and mental wellbeing are ever more important. At the same time, the business case for a proposed development that will meet these needs has been impacted by the challenges of construction costs increases, materials shortages and energy costs. This review provides an update to the Leisure Centre elements of the WW development, from the revised business case considered in June 2021. It sets out the rationale for investment to incorporate a replacement leisure centre as part of WW. It should be read in conjunction with the previous business cases and studies that accompanied those reports.
- 1.2 Previous business cases have set out the strategic, economic, commercial, financial and management cases for a new leisure centre. This update focusses on the economic and financial cases as the other elements hold true. It reflects the smaller scale of this phase 1 development (and resulting lower footfall to the leisure centre until phase 2 takes place) but at the same time recognises the increasing role that district councils are playing in health improvement, and ill-health prevention activities, which is frequently delivered through leisure centres.
- 1.3 How the cost of the leisure centre fits into the wider financial model for the new phase 1 scheme is set out in Section D of the main report. This shows that the leisure centre can be accommodated in a wider phase 1 scheme that breaks even within the existing MTFS provision and which meets the overall financial test for WW. However, it is important, in this appendix, also to show why, within that wider financial model, the

specific asset management case for replacing the leisure centre is as strong as ever i.e. building a new leisure centre as part of the WW Development should cost the Council no more than to refurbish and upgrade (and possibly extend) the existing leisure centre. Indeed it costs less.

- 1.4 The conclusion that this is still the case is based on the latest estimate for the build cost of the leisure centre. Allowing for the increased specification explained below, and higher inflation estimates, this is **£39.7 million**. This is the full project cost, including a pro-rata share of the Council's own costs including site acquisition, demolition of the old centre, the new athletics pavilion and a contribution to skatepark works. The sum has been reduced by section 106 funding already secured or anticipated (see para 1.27 below). This sum is also before any further value engineering savings.
- 1.5 This estimate has increased by around £9 million since 2021 (scope change and inflation). However, it is worth noting that, in the context of the two tests above, the same inflationary pressures apply to the cost of refurbishing the existing centre, as well as the latest appraisal of its condition. So the baseline position has also changed for the purposes of comparison. Before applying the two tests, it also makes sense to explain the revised specification for the facilities themselves.

Facility provision

- 1.6 In 2022, the Council updated its Indoor Sports Facilities Needs Assessment⁵. Consultants concluded the following (cross-referenced with the assessment as indicated):
 - (a) Bury St. Edmunds Leisure Centre is due to be re-located to a site on WW and re-providing a sports hall will be important to meet current and future (5.6);
 - (b) re-providing pools with the equivalent of 716.5m² of water space will be important to meet current and future needs. WW offers the opportunity to ensure that the new water space is configured in a way to maximise the efficiency of the operation and increase the opportunities for people to learn to swim, whilst meeting the current and future needs of the community and maximising the use of renewable energy solutions (6.15.2); and
 - (c) re-providing health and fitness facilities with the equivalent of 110 equipment stations and three studios will be important to meet current and future needs. (7.15.2).
- 1.7 The information from the study above has been brought together with an independent market review and, following extensive review of plans, the following facility mix is proposed as shown in Table L1 below. This includes the changes from the business case approved in June 2021.

⁵ [West Suffolk Council Sports Facilities Assessment March 2022](#)

June 2021	Current Target Facility Mix (December 2022)	Rationale for change
6-lane x 25m swimming pool and separate learners' pool with moveable floor.	8-lane x 25m swimming pool and a separate learners' pool with moveable floor. Built to Sport England specification for a Short Course Championship/ County Standard pool.	Increased pool size by 2 lanes to meet growing population and amount of actual swimming (rather than leisure) water
A destination fun pool will include an internal splash park with slides, jets, water cannons, flume and splash pool	A destination fun pool will include an internal splash park with slides, jets, water cannons, flume and splash pool	No change
Spectator seating for 150 people to main pool	Increased to 250 seats as per Sport England guidance for 8 lane pool.	To support galas in larger 8 lane pool
Health and Fitness suite 150 stations	Reduced to 116 stations	To reflect updated needs assessment and reallocation of space
5 x flexible studios	5 x flexible studios remain – location amended to deliver efficiencies	One studio has been designated as a rehabilitation studio to meet increase in health use
3 x Treatment/consultation rooms	3 x Treatment/consultation rooms , remain, located adjacent to proposed health facility	
4 Court sports hall + separate 2 Court hall	5 court sports hall , capable of being separated into 2 separate halls and with future expansion capability built into phase 1 and 2 design.	Smaller overall footprint delivers saving on building size. However the 5 court built to current standards provides an increase in space to existing leisure centre, with scope to extend it again in the future. Capable

		still of holding events.
-	Soft Play facility	Market assessment recommended inclusion of soft play to support wider business case;
A leisure café	A leisure café with a separate café seating area to serve new soft play facility.	Leisure café designed to meet new soft play demand as well as serve the wider centre

Table L1

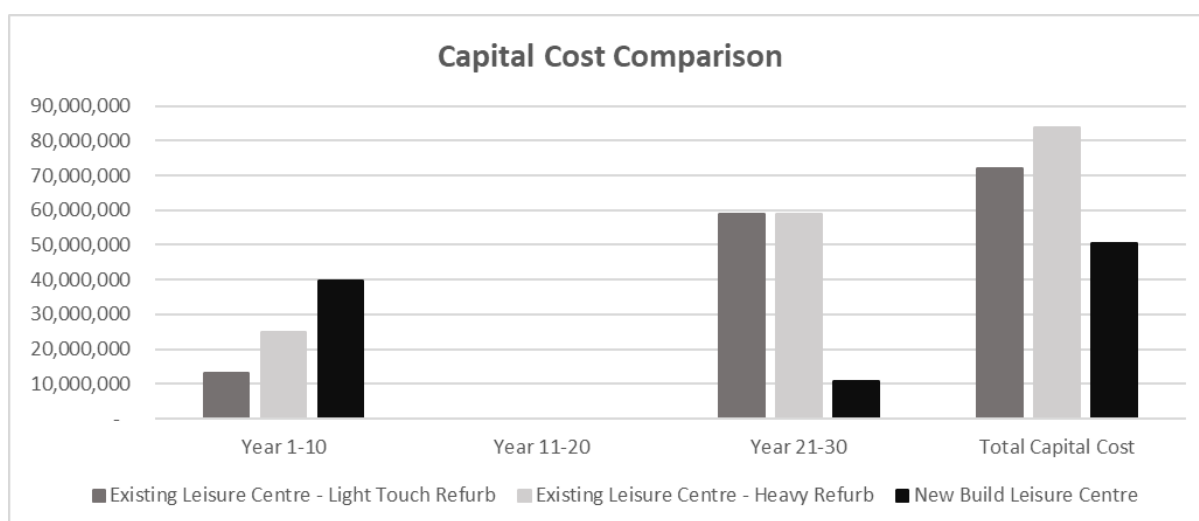
- 1.8 Adequate wet and dry changing and toilet facilities will still be provided to serve the new centre, including a Changing Places facility. Consultation will also continue to take place with the skatepark users over the design and phasing of any changes to the current facility which are linked to the final agreed phasing of any works to Olding Road junction. The athletics community will also be engaged over plans for a new pavilion by the track.

The Asset Management Case

- 1.9 Council agreed in 2018, 2019 and 2021 that there was no “do nothing option” given the Council’s strategic priority of “Resilient families and communities that are healthy and active”. The existing Bury Leisure Centre, one of the Council’s key leisure assets, is now 48 years old and its age and state mean significant investment would be needed there or in a new centre. The original business case showed that over the long term, building new was more cost effective.
- 1.10 This investment also needs to be seen in the context of a normal asset management cycle for leisure centres which is taking place across West Suffolk. Swimming pools have an in-built cycle of maintenance and replacement due to their complex plant, wear and tear on the pool tank and environmental conditions in pool halls. They are also very challenging to extend when a community outgrows them. Changing rooms and dry-side facilities similarly need to keep pace of changing market and community requirements and competition, alongside their own maintenance needs. Eventually, a centre will reach the point where it is no longer economic to maintain and/or it needs to be adapted or expanded to meet the changing needs or size of a community/market. In addition, there is now a proven benefit of making leisure centres into dual-use facilities and community hubs which requires more space.
- 1.11 By their nature, these cyclical works are expensive particularly when swimming pools are involved. But they are essential community infrastructure. Consequently, in 2016, WSC’s predecessors created a Leisure Investment Fund to deliver improved facilities to improve both

the financial performance of its leisure centres and to improve health and wellbeing opportunities for its residents. This £5 million fund delivered improvements at Haverhill, Brandon and Newmarket. In addition, the Councils built the new Mildenhall Hub that includes a new leisure centre (2021) and the Skyliner Sports Centre (2016). To date investment has not been made in Bury St Edmunds Leisure Centre, the oldest of the Council's centres and which had its last significant works in 2015. Improvement works been deferred given the commitment to a new leisure centre as part of WW Development.

- 1.12 The importance of maintaining an asset that is attractive to users, and that has the right facility mix has been highlighted in a Sport England [Moving Communities](#) survey published in October 2022. It stated that swimming is still the most popular activity people participate in, 86% of respondents prefer exercising in a leisure centre than in a more informal setting, and future intentions re exercise have not changed significantly since October 2021. Cleanliness was the most important factor when visiting a centre, something that is far more challenging to maintain in an aging facility. (39,098 respondents from 707 sites across the UK).
- 1.13 In order to evaluate the current condition of the site, independent contractors carried out a full site condition survey of the existing centre in October 2022. This has identified that between £7.2 million and £8.9 million would need to be spent over the next 5 years if the centre was to remain open (£7.2 million used in the figures below). This does not include any upgrades that would make the centre more attractive to users. High level plans have been drawn up to provide for a simple remodel of the existing centre, and a further option that includes an extension to the centre. As in 2019, the long-term capital costs for this have been modelled, recognising that a new facility would reduce operating costs and deliver a return to the Council, but would only be deferring a leisure centre rebuild for 20 years. The advantages and disadvantages as set out in 2021 remain valid.
- 1.14 The graph (Graph 1) below shows the capital costs modelled over 30 years and why building new now is cheaper over that period for taxpayers.



Graph 1

Revenue Model (feeding into overall WW financial model)

- 1.15 In 2019, the recurring budget pressure of or a new leisure centre was identified as £724,000 per annum (a refurbishment and later new build would have been a greater pressure). This figure was included in the Council's MTFs when the WW business case was approved in 2019 and then reviewed in 2021. This is the figure that needs to stay the same if WW isn't to make the Council's wider budget saving target larger. The way this £724,000 was calculated in 2021 was to deduct the net revenue benefit of the new leisure centre to the operator (£476,000) from the estimated annual cost of borrowing for a new facility (£1.2 million). It is important to note that by 2025 the Council will not be paying any management fee to the centre operator so the revenue benefit to the operator would be passed to the Council under the terms of the Collaboration Agreement, meaning that the Council would still have the full £1.2 million to put towards the cost of the leisure centre.
- 1.16 To reach the previous sum of £476,000, the WW business case methodology calculated the benefit that the operator would see from a new centre taking into account location, attraction of new facility mix, reduced running costs. Whereas currently the leisure centre costs money to run, the new centre would deliver a return to the Council through the leisure operator. That return would not just be the operating profit but the saving in the current building operating costs. Table L2 below shows how this was calculated in 2019 and the updated 2022 figures.

	Cost £ / annum		
	June 2021	2022 review	
Current BLC running costs +	161,000	250,000	Running costs have increased due to increased supply costs and membership reductions due to competition (Does not include utilities pressure - see separate line)
WSC BLC maintenance costs +	125,000	125,000	Note the condition survey indicates that this provision should be increased if existing centre remains
New BLC surplus	219,500	100,000	This surplus does not currently include any renewable benefits. Reduction reflects impact

			of NLW and increased supply costs and reduction in WW footfall
-Excluding catering	- 29,000	-	Catering now included in LC business case
NEW LC benefit	476,500	475,000	

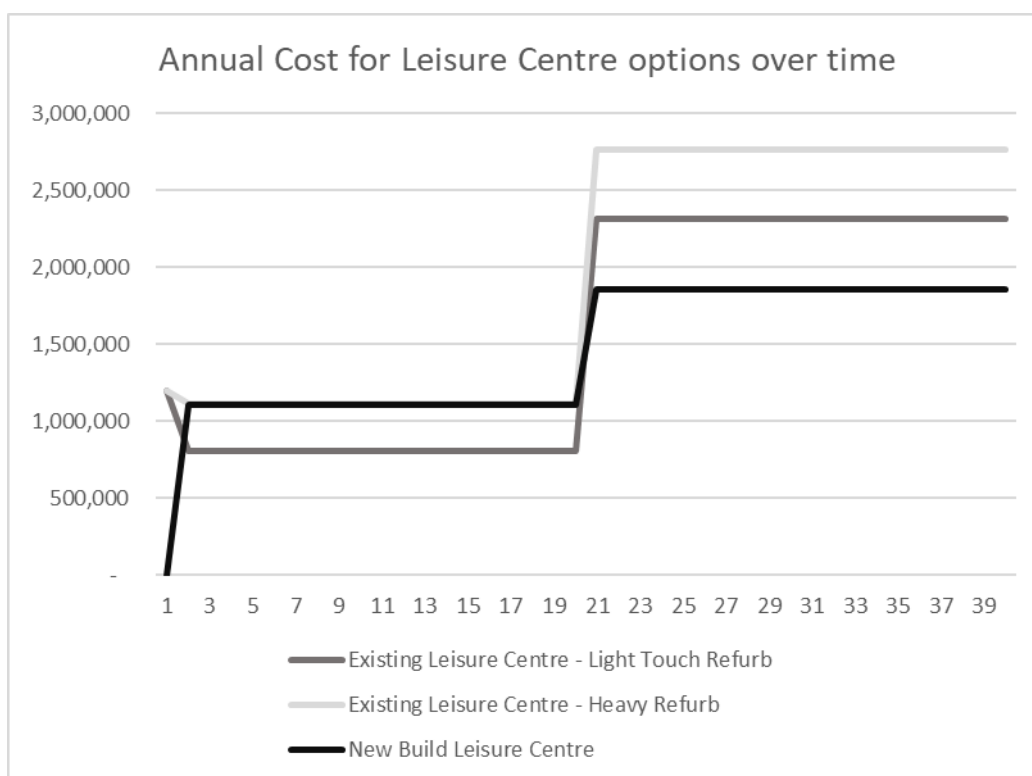
Table L2

- 1.17 The updated figures reflect the fact that a large health facility will no longer be part of phase 1 of the development and forecasts attendance based on population, removing the uplift for a larger site footfall in phase 1. However, it does recognise that the improved leisure pool and soft play combination in particular will provide a half day destination that will attract visitors from outside the usual catchment zone. Further, during the development of these plans there has been an increased collaboration between health and the Council with leisure and fitness activities being embedded into a number of health pathways that are delivered at Council facilities. Also, the partners in the new community hub provides the opportunity for further use of leisure centre assets and all of these together provide a developed income stream for leisure facilities and has been reflected in the business case.
- 1.18 Whilst the operating costs of the existing centre have increased, and the return from a new centre is predicted to decrease due to the smaller footfall on the site in early years, the net effect is still the same. The centre will achieve significant savings due to efficiency of operation and deliver environmental benefits (see later renewables section).
- 1.19 The assumptions and methodology in the revenue modelling in regard to leisure use have been validated by independent market appraisal to ensure there is no optimism or pessimism bias. That report has identified a baseline position for core leisure that is augmented by the wider benefits from the other tenants on the site and the increase in physical activity and rehabilitation work referenced above.
- 1.20 It should be noted that the above does not take into account future years' energy cost pressures. These are estimated to be around £200,000 per annum for Bury Leisure Centre based on 2023 secured price and Cornwall Insight's independent modelling⁶. Energy costs are a key pressure that all leisure operators are facing and threatens the viability of the existing centre. There has been significant press coverage in recent weeks of centres where operators have had to take the decision to close in whole or to just close swimming pools, and the impact this has had on both health and wellbeing. The new centre's energy strategy should remove this pressure and the risk of market

⁶ <https://www.cornwall-insight.com/press/energy-prices-to-remain-significantly-above-average-up-to-2030-and-beyond/>

uncertainty from an operator which will provide more certainty for cost and benefit for the Council. But, as highlighted earlier, this is why continued pace on the project is important.

- 1.21 As in 2021, and on the basis set out in Section D of the main report, the revenue impact of just the leisure facilities in the new centre has been modelled against the revenue impact of schemes to refurbish and remodel/extend the existing centre to delay the rebuild. In summary, modelling all of the costs and income over the borrowing period of 40 years shows that a new centre as part of WW remains the most cost effective option. This is illustrated in Graph 2 below (which includes an indicative cost of the first refurbishment of the new leisure centre after around 20 years).



Graph 2

- 1.22 Totalling those costs over 40 years shows a significant saving to the Council:

Option	Revenue Cost over 40 years £
Existing Leisure Centre - Light Touch Refurb	62,834,000
Existing Leisure Centre - Heavy Refurb	77,654,000
New Build Leisure Centre	58,155,000

Table L3

- 1.23 Showing that this comparative revenue cost is lower over 40 years makes the asset management case for a newbuild over a refurbishment. But it does not show the Council can afford to do it. Specifically, it does

not deal with the fact that the capital cost of the new leisure centre has increased by £9 million since 2021 whilst the revenue benefit of the leisure centre has stayed the same. If the full cost of the centre were to be borrowed, this would mean that the immediate net impact of the phase 1 WW leisure centre on the Council's MTFS (£724,000) would need to increase to £1.1 million (and refurbishment options for the existing leisure centre would also lead to increases too). This is not acceptable in the current financial climate. Therefore, unless the specification is significantly reduced, other funding for the cost of the leisure centre will be needed.

- 1.24 As set out in Section D of the main report, a proposal is set out how this extra income can be found. Mainly because the renewables benefit from phase 1 of WW remains large and can now be applied entirely to the Council's own elements (see part 3 below). But also because the new indoor facilities assessment has made it possible to attract some developer funding (see below). Further value engineering and economies of scale are also projected and are reflected in the overall target model the contractor and Council will need to achieve by March 2023. This is not something that could be applied if we were to do either of the refurbishment options of the current leisure centre.
- 1.25 The crucial thing to note here, in asset management terms, is therefore that, without the wider opportunities of the WW scheme, most notably its renewables, the current MTFS provision for the leisure centre could not be retained at £724,000 and the Council's wider savings target would increase. Whereas this option doesn't exist on the current site. A prudent estimate from the work explained above is that the annual revenue cost of carrying out just the essential works on the current leisure centre site, with minor refurbishment to deliver a smaller non-integrated facility, (and deferring a new build for 20 years) would be initially £806,000 increasing to £2.32 million after year 20. If a major refurbishment is carried out, these figures would be £1.12 million and £2.76 million respectively. This, ultimately, is the asset management argument for carrying on with WW to continue to provide leisure and swimming facilities in Bury St Edmunds. A table summarising this is included in the executive summary.
- 1.26 In summary, the total revenue contribution towards the cost of the leisure element of WW can be maintained at the 2021 figure of around £1.2 million (£475,000 plus £724,000), and the impact of increased specification and inflation mitigated by other sources of funding within the project and expected s106 contributions.

S106 funding

- 1.27 The 2022 indoor facilities assessment has provided a planning policy evidence base that there is a need to provide extra leisure capacity to cater for anticipated population growth coming forward under at least the current local plan.
- 1.28 The design for the leisure facilities at WWD has therefore taken into account future population growth up to 2040 e.g. the larger pool. The

Council will, however, have to forward fund these works as future-proofing and then recover the cost retrospectively using contributions received from applicable new housing developments.

- 1.29 Although always dependent on schemes receiving consent and then being delivered, a prudent estimate of over £500,000 is included in the net capital affordable for the leisure centre of £32.75 million. Sums sought and obtained would reflect the final cost and specification of the scheme.

2 Ancillary elements of the leisure centre

- 2.1 The following ancillary elements build on the shared multi-use approaches taken at the Council's other leisure centres. As with the rest of the scheme, they will continue to evolve until the second stage of tendering is complete.
- 2.2 The existing WW project principles and financial safeguards mean that anything added in this way to the leisure centre in the phase 1 scheme needs to stay within the overall financial test for phase 1. So it must either break-even on its own or, as with the main leisure centre, there must be other available income or capital in the model to cross-subsidise them given their operational benefits e.g. renewable energy income. If not, it won't be included and we will either target a smaller phase 1 scheme or different income-earning uses for the space. It is also important that, as optional items, any borrowing is modelled at current PWLB interest rate assumptions.
- 2.3 In terms of what could currently be included under the Council's own specification, the following is under consideration:

(a) Small and flexible health and well being facilities

This would be fewer than 10 consulting rooms and up to 700m² in size. Which is in keeping with the scale of the health and well being facilities we have included as landlord in other leisure centres (Haverhill has 5 treatment/consulting rooms, Brandon 5 and Mildenhall Hub 7). This space can be used commercially by sub-tenants or partners of Abbeycroft to provide counselling, physiotherapy, other wellness services, etc (as in Haverhill). It could also, in the worst case, be converted to leisure or office space in the future. Which, in addition to the scale of the capital investment (approx £2.5 million), is why it could be built at risk under the already agreed project principles (as was the case for the similar, fully-utilised, facilities in Haverhill, Mildenhall and Brandon).

However, 700m² is also a sensible and very flexible size for a small community health and well being facility built to NHS standards, as in Brandon Leisure Centre and Mildenhall Hub. The Integrated Care Board has indicated in November 2022 that they would potentially be interested in taking this space if it is affordable, and this will therefore be included in ongoing partner engagement as designs progress. However, pending formal confirmation of any NHS

involvement, the base budget for the facility will be for the specification needed for a leisure centre rather than an NHS facility. This will then be adjusted if the NHS sign up to reflect their higher specification and any agreed funding and/or rent.

As there is currently no third-party funding, the base budget for this facility would need to be supported by market rents for similar facilities. These are the equivalent of rents for good quality offices in the local property market (around £20 p.a. per ft²).

(b) Council Stores

The Council must re-locate a small amount of West Suffolk House storage from the former council depot but also find new homes for its election and emergency planning stores. While off-site options exist (e.g. industrial units) they have a direct or opportunity cost and, operationally, having this storage on the WW site has significant advantages (some of which may be cashable in terms of the running costs of elections). It will also serve as useful and flexible future expansion space in the community hub if ever needed. Accordingly, the target scheme includes around 150m² of storage space for the Council. Before taking into account operational efficiencies, this will cost the Council up to £100 per m² p.a. in lost rent if we provide it elsewhere in our estate. So this is broadly the income available to support borrowing in phase 1. The construction cost will be to a very basic specification, albeit there will be some premium (justified by the operational benefits) from taking a share of the costs of a non-industrial/logistics building.

(c) Office and meeting space

Large-scale offices for public sector or commercial tenants are no longer included in the phase 1 scheme. However, a small amount (100m² or so, or around 15 desks) of office space and some flexible meeting spaces (300m² or so) are still retained in the phase 1 business case.

In the case of offices, this is potentially needed by Abbeycroft to replace offices they currently have in the Bury leisure centre, but other public sector uses would be possible to find. It will also offer future expansion space for other elements of the scheme e.g. additional studios.

The meeting room provision was already included in earlier schemes and, with the continuing range of tenants and additional wider community, educational and council uses (including in phase 2), this is still likely to be viable. Again, it also offers flexibility in the future to adapt the hub in the light of actual demand; past experience with hubs suggests a small amount of 'float' space is sensible. The cost of this facility will be underwritten in the model by market rents for middle-of-the-market office accommodation (£15 p.a. per ft²).

3. Renewable Energy Generation and Storage

- 3.1 The WW business case has always been underpinned by the value of renewable energy within the project, and this has been a key part of ensuring cost-neutrality for taxpayers. However, up to now, this benefit was applied to a Hub which contained other public sector elements and commercial offices. So all of these elements benefited.
- 3.2 This underlying business case principle still applies but now there is only the smaller community hub in phase 1. Meaning the net revenue can be used to mitigate the impacts of inflation and interest rate changes on the leisure centre in particular.
- 3.3 The aim of the project has always been to take the new Hub off-grid for a large part of the year (with solar energy this is not possible year-round). In addition to the revenue and environmental benefits of doing this, it reduces capital costs because on-site generation avoids the need for expensive cabling works from the National Grid. There is also a substantial area of roof and car parking on which to put solar (PV) panels.
- 3.4 In the phase 1 portion of the site alone, there remains scope over time to add 13,000m² of PV panels supported by batteries which will complement the battery already installed for West Suffolk House. At an estimated cost of just under £10 million this provision is estimated to generate a return on investment of £0.98 million p.a. using current PWLB interest rates. This is based on a very prudent assumption of a unit price of 14p for the supply of this energy. 14p reflects the price obtained before the current energy crisis so is far lower than the current rate. However, using this rate allows for the price to fall again over the period of the borrowing. Providing the pessimism bias required for assessing such a large investment.
- 3.5 As explained in Appendix 3, there is scope to add a further 4000m² or so of PV panels (and supporting batteries if needed) on the remainder of the site, some of which can be included in the phase 1 contract.

Appendix 2

The phase 1 community hub: Suffolk County Council's potential elements

The County Council is currently working on business cases for two of the potential elements of the community hub shown in the indicative layouts above.

1. Suffolk Archive – West Suffolk branch

- 1.1 Councillors will be aware that Suffolk County Council (SCC) is considering plans to invest in the future of its archive service in West Suffolk by either refurbishing the current Raingate Street building in Bury St Edmunds or relocating to a new purpose-built facility in WW. This opportunity was not known in 2021. If WW is chosen the new facility will be set off the main 'Street' of the hub allowing it to operate discretely while, at the same time, taking advantage of the wider shared facilities and integration opportunities.
- 1.2 To mitigate the risk to WSC of the specialist design and costing which SCC will need to inform their business cases, SCC has signed a collaboration agreement for the WW project along the same lines as the NHS did for their earlier involvement in phase 1.
- 1.3 SCC will be reviewing the options at a Cabinet meeting in early 2023. If it chooses to join WW, then formal agreements will be needed before the Council completes the second-stage tendering process in summer 2023.
- 1.4 The final scale and scope of the facility is yet to be decided by SCC, which means it is hard to provide an accurate cost; the non-shared accommodation is likely to be around 600m² and cost over £3.5m subject to final specification. However, this is a moot point for the purposes of this viability appraisal since SCC would be committing to meet the full cost to WSC either through a capital investment of their own or a very long-term year lease (i.e. 40 years or more) under One Public Estate principles. As such, if SCC do not select this option in January then it will not be included in the phase 1 scheme and, therefore, there is no risk to WSC at this moment in time.

2. Pre-school

- 2.1 The current WW planning consent includes outline consent for a pre-school/nursery and, therefore, some provision will always need to be made in any phasing plan for the local planning authority to provide one.
- 2.2 SCC have indicated that there is currently a deficit in provision in the local area and, therefore, strong demand for this still to be included in phase 1, and at a larger scale than previously envisaged (around 60

spaces instead of 40). The re-phasing of NHS involvement means that there is also scope now to integrate the pre-school and its outdoor play area in phase 1 of the scheme as part of the hub. This means the pre-school can benefit from sharing plant rooms, parking, etc and that other facilities, including the café and leisure centre, will be more easily accessible to parents and staff. It also minimises the impact on the area surrounding the athletics track where the pre-school was previously envisaged.

- 2.3 The scale of the facility could be around 400m² plus an outdoor area and cost over £1.5 million to build within the hub. Again, a shell-and-core approach may be sensible until a tenant is signed-up to ensure nothing is over or under-specified. SCC would oversee this element of the phase 1 scheme as the County Council has a duty to secure sufficient childcare places, and they also have available significant s106 pre-school funding from nearby developments. The residual cost would then need to be capable of being covered by a market rent for the pre-school sector if the facility is to be included in the phase 1 scheme (around £10 p.a. per ft²). Therefore it can be seen that the critical issue for viability in this instance will be the amount of s106 that can be made available.
- 2.4 WSC's preferred approach would be for SCC to hold a head-lease and then choose an operator (similar to the model at Mildenhall Hub). However, at this level of investment, and given the likely level of demand and SCC's involvement in securing childcare, this would not be essential if a better tenure model came forward.

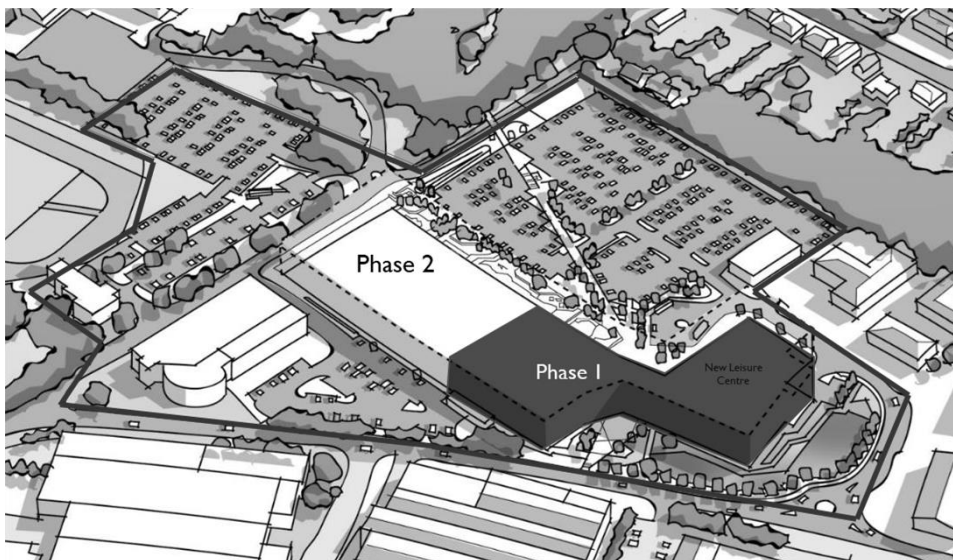
3. Summary for potential SCC facilities

- 3.1 In summary, these additional SCC elements could amount to just over 1000m² of extra operational area to the leisure centre, costing between £5 million and £6 million. Which, if they proceeded, would be underwritten by the County Council. As explained above, there is currently a high expectation that they can be constructed at benchmark prices and, after external funding, any net borrowing required can be supported at current interest rates with income from tenants at market rents. Thereby meeting the existing break-even test. However, if this is not the case, then they will not be included in the phase 1 scheme which is signed off by Cabinet in Spring 2023.
- 3.2 Acquisition costs are not shown against these elements of the project. This is so the Council can be sure that phase 1 will still stack up if either of these elements does not proceed. Furthermore, the County Council's contribution to the land acquisition costs for the scheme would, under the adopted One Public Estate principles, come in any event from its agreement to the retention of the current leisure centre site, and the inclusion of some of the West Suffolk House site, in the WW scheme.

Enabling works to the site/interim works to the remainder of the frame pending phase 2

1. Context

- 1.1 The 2020 planning consent for the scheme requires the full retention of the existing 1960s frame. However, this can be converted in a phased manner, in keeping with the approach first agreed by Council in 2021. As explained in previous sections of this update, a large part of the frame will not be needed by the Council and partners in the phase 1 scheme. As such, this phased approach can definitely be confirmed.
- 1.2 As a reminder of what is left over, the illustration of the scheme with planning consent below shows approximately the proportion of the frame currently required for the phase 1 scheme (shaded black).



- 1.3 The NHS are still working on their business case to use this remaining capacity of the frame in phase 2 but, irrespective of the outcome of that process, the existing planning consent allows for a wide range of commercial and public sector uses of the site (offices, education, community, health and education). The project will therefore develop a phasing plan to agree with the Local Planning Authority which shows how the whole frame will continue to be used at various stages of the scheme, leading up to its full refurbishment and use as a multi-purpose hub.

2. Current condition

- 2.1 The entire roof of the current depot/warehouse structure is at the end of its life and would have required replacing in the coming years even if the WW project had not proceeded. Like with the leisure centre, there is no 'do nothing' option in terms of the existing asset.

- 2.2 Although in need of some updating and refurbishment, the internal accommodation at the eastern (logistics) end is lettable and will remain so after the phase 1 scheme. It will be vacant from the end of 2022, meaning enabling works to the roof and frame could start in 2023 (see below).
- 2.3 In contrast, the former council depot end of the site would, in addition to re-roofing, need extensive internal works for it to be re-lettable if WW did not proceed. And it is currently un-used (other than for a small amount of storage while it is cleared). Enabling works could therefore start in this end of the frame too.

3. Construction phase

- 3.1 For obvious reasons, it would not be possible for any commercial tenant to occupy the eastern (warehouse) end of the frame while construction of phase 1 was taking place as the contractor will need control of the whole site. Taking advantage of this opportunity, the contractor is seeking to use the existing facilities of the warehouse themselves during the build as their site office, staff facilities and secure yard. This will make savings on site costs ('preliminaries') and, crucially, also allow the forward purchasing of materials which will be a key part of mitigating inflation. Accordingly, the Council now has until 2025 before it needs to decide on what happens to the remainder of the frame. As well as a chance to carry out future-proofed works to the eastern end in advance of or alongside the phase 1 scheme.
- 3.2 In addition, it would be possible during the construction of phase 1 to prioritise the installation of solar (PV) panels on a new roof across the whole frame; for use within the site itself or for exporting energy to earn income. Only around 40% of the roof is currently required for phase 1.

4. Post-construction phase

- 4.1 As explained elsewhere a business case for phase 2, and a new capital budget, will need to be brought forward to councillors before the end of the phase 1 construction programme. That would include any request from the NHS to be part of phase 2.
- 4.2 At the present time, therefore, the major risks for the Council to mitigate as landowner are those associated with any gap between phases 1 and 2. These risks include holding costs being incurred, the loss of economies of scale on works that affect the whole frame, the delay to income from renewables and uncertainty over the temporary use of Anglian Lane. However, there is also a risk that deferring too much cost in phase 1 will make it harder to develop the remainder of the site in phase 2 which, as landowner, does not make commercial sense. Therefore, a future-proofed interim investment in the rest of the frame and wider site alongside phase 1 could be justified in asset management terms.

5. Suggested approach

- 5.1 The way to mitigate these risks, and an approach which would make good asset management sense as well as providing further project safeguards,

would be to seek a treatment of the entire steel frame during the phase 1 contract which can both cope with all post-2025 scenarios but also reduce the risk of significant abortive cost later. And, in addition, would still make sense to pursue as a landowner if the WW scheme did not proceed at all. In simple terms, retaining the eastern end of the building in lettable condition and taking up the chance to capture renewable energy income as early as possible.

5.2 More detailed design work and cost-benefit analysis on this matter is needed from the design team and contractor in the coming months as part of the work to re-profile the phasing of the scheme. But, at this point, a logical and minimum set of future-proofed works to commission for the remainder of the frame would include:

- (1) re-roofing;
- (2) installing PV panels (approximately 4000m²) along with any associated energy infrastructure such as batteries; and
- (3) purchasing from UKPN the ability to export 900KW of energy into the local grid (at a cost of up to £140,000).

5.3 A decision on if, how and when to re-clad the sides of the frame ahead of the phase 2 scheme would also be needed. But this is less urgent because the most risk averse approach would be to delay this particular property decision until there was more certainty on phase 2 (and the final design, timing and sign-off of which would be implemented under normal property delegations in the Constitution in consultation with the planning authority). In contrast, items (1)–(3) above could potentially be carried out ahead of the main phase 1 build (see enabling works section below).

5.4 External works to the Olding Road car parks and access road may also be required to enable certain interim uses of the site pending phase 2 of WW. This is because the LPA would apply a test of compatibility with the phase 1 uses (for instance around road safety) when considering any phasing plan.

5.5 For the above reasons, it is proposed that a provisional capital budget of up to £10 million (current estimate of £8.25 million) be built into phase 1 of WW for interim works to the remainder of the site, in order to capture the benefits and mitigate the risks explained above. This budget to include but not be limited to:

- recovery of the acquisition cost of the remainder of the frame;
- the cost of permanently re-roofing this section of the frame;
- additional renewable energy provision including export capacity;
- any temporary or permanent re-cladding required for an interim use (if applicable);
- transitional external works (if applicable).

Off-setting some of this cost would be the economies of scale of carrying out these works as part of a combined contract for phase 1. These economies also benefit the phase 1 scheme without undermining the principle that phase 2 should not subsidise phase 1. They also serve to make any eventual phase 2 scheme more viable.

- 5.6 The borrowing for this expenditure would be under-written, at current interest rates, by the estimated net income from the additional renewable energy and, as fall-back position, the estimated rent from any interim use. A prudent combined estimate is £465,000 p.a. which would support £8.5 million of borrowing at current interest rates. The desired position, however, would be for there never to be an interim use and for this capital spending and renewables income to be incorporated into the later phase 2 business case. However, it is an important safeguard for the Council as landowner to underwrite this asset management approach using the more certain fall-back position.

6. Enabling Works

- 6.1 A further safeguard for the Council, both in terms of the value of its asset and mitigating inflation, is to carry out enabling works on the WW site as early as possible ahead of the main contract.
- 6.2 These works would cover a variety of aspects of maintaining and preparing the site such as site surveys, re-roofing, installation of PV panels and batteries, site clearance, removal of former filling station, maintenance of existing logistics depot, etc. But their defining characteristic is that they will add value to the site whether or not the WW scheme proceeds or not. So, for instance, as explained above, they would enable the eastern end of the frame to continue in its current use or allow the Council to access renewable energy by installing PV panels on the frame use. Similarly, nothing would be done to either end of the frame in terms of demolition which would diminish its value as a commercial asset in its current form.
- 6.3 Competitive quotations for this package of works would be sought before January 2023 so that these can be commissioned at the earliest opportunity from within the WW budget. Given they make good asset management sense, the recommendations in this review include the proposal that officers be authorised, in consultation with relevant portfolio holders, to approve these works to a maximum value of £10 million ahead of any final sign-off of the WW scheme by Cabinet.

7 Alternative options

- 7.1 So that the maximum flexibility can be built into the phase 1 scheme and works to the remainder of the site, the Council will continue to evaluate alternative options for phase 2 alongside the NHS continuing with their own business case. Not least because the existing planning consent allows for far more accommodation than the NHS have previously said they would want. However, this also means the Council will have a better understanding of alternative options if the NHS business case for phase 2 is not successful or significantly reduced.
- 7.2 To support this work, market analysis and further design studies may be commissioned from consultants within the WW budget. Discussions will also continue with the Local Planning Authority.