

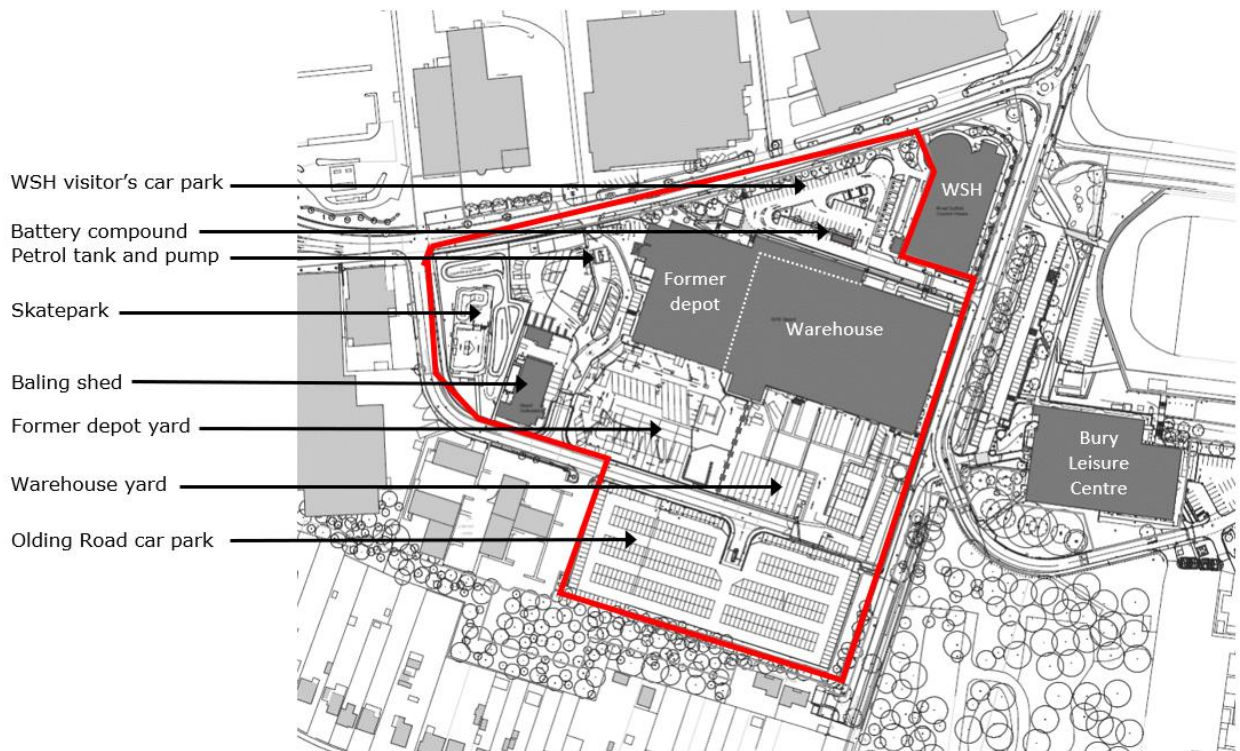
Appendix A: Business Case – Olding Road

Project Details			
Project Name	Olding Road Options Appraisal		
Project Manager	Sabrina Pfuetzenreuter-Cross	Date	02/07/2024
Project Sponsor	Rachael Mann	Version	1
Business Case Stage	Full Business case		

1. Executive Summary

1.1 This business case enables members to consider the recommended option for the Olding Road site, Western Way, Bury St Edmunds. The **£6 million** capital budget requested is proposed to be funded from the Investing in Our Growth Fund established within the 2024 to 2025 budget process. This business case is intended to provide details on the site's current condition, working assumptions applied to all options investigated, financial position of the recommended option and the reasoning for arriving at the recommended option.

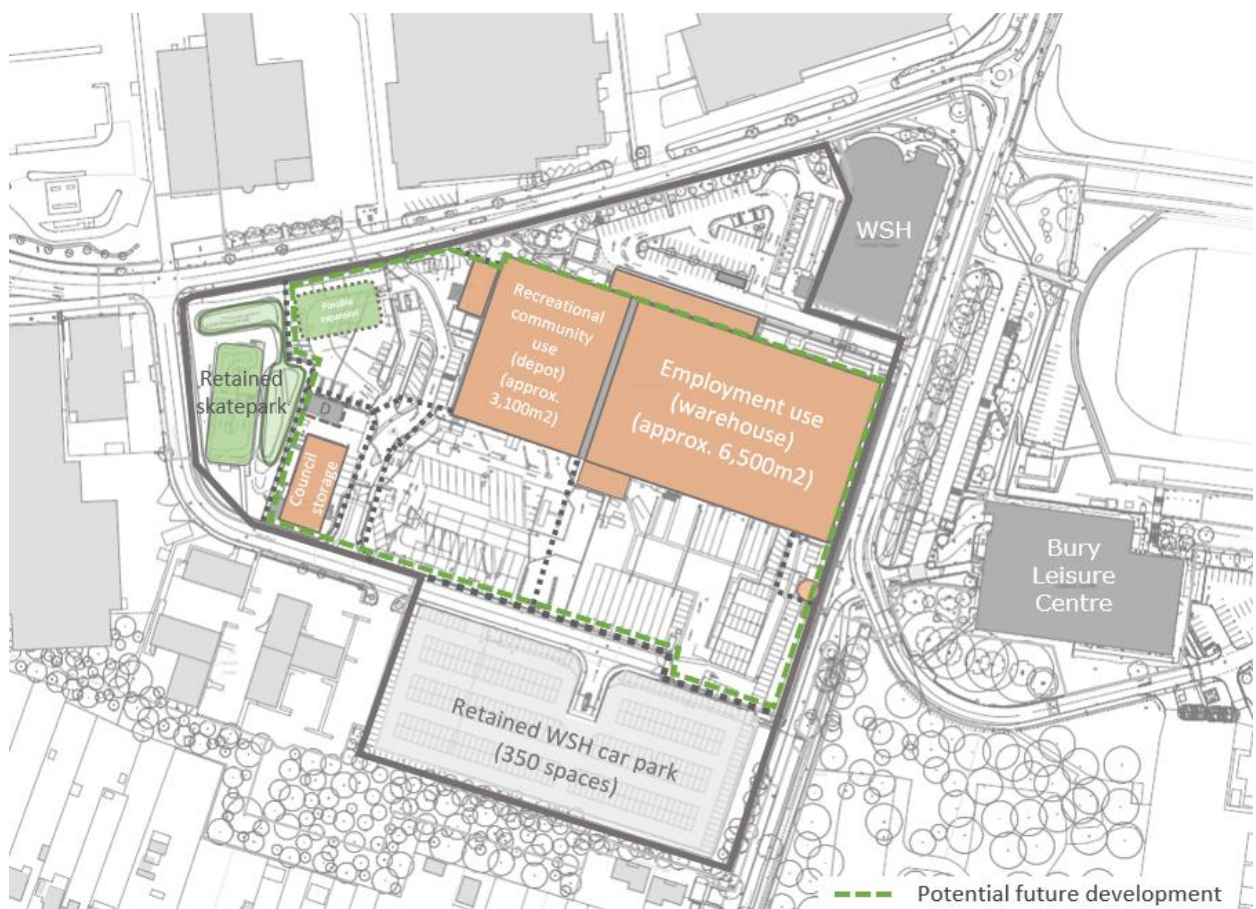
1.2 Existing site:



- 1.3 Following the decision on the Western Way Development (WWD) project in September 2023, as set out in the Council report dated 26 September 2023 [report no. CAB/WS/23/041], a budget of £75,000, funded from the Strategic Priorities and Medium-Term Financial Strategy Reserve, was approved to identify alternative uses and potential re-development options for the site of the former Council Depot and NHS Warehouse.
- 1.4 A key driver for action is that the current buildings are effectively life-expired and unlettable in their current condition. This is resulting in an annual revenue holding cost to the Council of around £300,000.
- 1.5 A further driver is the potential for the site to support the strategic priority areas for the Council, both directly through the type of use and development, and/or indirectly through the opportunity to generate a revenue income to support the delivery of services.
- 1.6 The options appraisal has considered a wide variety of potential uses and development options, which were shaped through discussions with the Leader of the Council, Portfolio Holder for Resources and Property and Cabinet members, to meet the council's strategic priorities whilst balanced against:
- Retaining ownership of the site for longer term opportunities in the delivery of the council's strategic priorities;
 - Providing short term flexibility to meet a challenging and changing economic market;
 - Need for financial certainty, lower capital investment options, income certainty and reduce ongoing costs;
 - Remediation of the site due to the age of the structure and materials and addressing any contamination caused by previous historic uses; and
 - Current planning regulations and guidance.
- 1.7 The site has financial viability challenges driven by the asset condition and the wider economic market conditions affecting all options considered. These were challenges also faced by the cancelled project. However, through further detailed financial, market and deliverability analysis, the essential investment option, described as **Option A**, showed the potential to cover the cost of borrowing for the build elements over 10 years, providing both an income and use for the site in the short to medium term in support of the council's strategic priorities, whilst also retaining the land for future strategic development opportunities. This option has been recommended for approval following discussions with the Leader of the Council, Portfolio Holder for Resources and Property and Cabinet members.
- 1.8 This option retains and partially refurbishes the existing depot and warehouse building including undertaking necessary internal and external works (subject to use), creating a recreational and community use in the former depot that, together with the skatepark and surrounding college and neighbouring leisure centre,

supports thriving communities – especially targeted for young people. An offer has been received for a trampoline and virtual reality experience use within the depot.

- 1.9 While the warehouse section (former NHS supplies building), can be operated under current planning regulations or other uses that fall within the planning allocation as set out in the Development Plan to respond to the market demand, in support of the local economy and sustainable growth.
- 1.10 The recommended option will therefore keep the largest number of options open, at the lowest level of capital risk, and allow Cabinet to pursue initiatives with wider strategic benefits if the opportunity and/or funding arises in the future.



Option A (recommended option)

- 1.11 This recommended option has a total project cost of up to £7 million, which includes the £1 million already agreed in the previous decision on the Western Way Development (WWD) project in September 2023, as set out in the Council report dated 26 September 2023 [report no. CAB/WS/23/041]. This option is showing a potential initial breakeven position after borrowing (over 10 years) is taken into account, funded by the income associated with the letting of the building. A net return after borrowing is expected as market rents increase and extending the life of the £6 million investment over a longer life than 10 years (of which the investment will have a longer life) would show an immediate net return after borrowing. Further details can be found in the Financial Case below.

1.12 Members are invited to review, comment and endorse; the current condition of the site, working assumptions, discounted options, financial position, recommended option – opportunities, risks and financial implications and next steps for the Olding Road project as part of the Investing in our Growth Fund.

1.13 Further details of this recommended option are included in the sections below.

1. Strategic Case

Strategic needs:

- 1.1 There is a strategic need to identify a suitable use for the Olding Road site in Bury St Edmunds following the decision on the Western Way Development (WWD) project in September 2023, as set out in the Council report dated 26 September 2023 [report no. CAB/WS/23/041].
- 1.2 The site is strategically significant due to its size, location within the town, its proximity to West Suffolk College and the Abbeycroft leisure centre and the Council's land holdings surrounding the site (including West Suffolk House and Olding Road car park), as well as the potential future opportunities this site offers.
- 1.3 The site has the potential to support the strategic priority areas for the Council, both directly through the type of use and development, and/or indirectly through the opportunity to generate a revenue income to support the delivery of services.
- 1.4 Furthermore, recent market evidence shows that there is market demand for the site, which offers the opportunity to create jobs and local economic growth.
- 1.5 The buildings including the main building that previously housed the council depot and NHS warehouse is no longer lettable in its current condition and requires significant investment to make it suitable for occupation for any uses. Essential works include:
 - the replacement of the roof, which suffers from significant water ingress;
 - renewal of damaged mechanical and electrical (M&E) systems;
 - demolition of internal partitions to free up the warehouse space; and
 - remediation of ground contamination from historical uses.
- 1.6 Due to the building being vacant and unsuitable for occupation, the Council is incurring annual holding costs of approximately £300,000 per annum across business rates, standing utilities and security.
- 1.7 Therefore, essential investment in the fabric and systems of the building is necessary for any relet and also provides the opportunity to bring back into use this strategically significant Council asset, generating income to support that investment

and offering the potential for future income growth (above that investment) to be reinvested into the delivery of council services.

- 1.8 The full disposal of the site was considered at the start of this options appraisal, but discounted, due to the strategic significance of the site and potential future opportunities this site offers. Further details can be found in the options appraisal matrix in Appendix B.
- 1.9 The following objectives were established by the Portfolio Holder for Resources and Property for each option to be considered against.

Financial/spending Objectives:

- 1.10 The recommended option should avoid having a negative impact on the Council's revenue budget position across the medium to longer term (based on a holistic appraisal, including renewables opportunities where applicable).
- 1.11 The investment should provide a net revenue income which exceeds the cost of borrowing or, at the very least, matches it in the short term with the potential for income growth.
- 1.12 The aim is to increase the site's capital value from that at present once the project has been completed and the property is occupied/let.
- 1.13 The investment size should be proportionate and affordable within the councils overall borrowing requirements and should achieve a manageable income risk profile and provide quick returns, avoiding existing holding costs (approximately £300,000 per annum).
- 1.14 The investment should offer flexibility for future strategic opportunities, market demands and priorities as these evolve across the longer term.

Non-Financial Objectives:

- 1.15 The future use of the site must align with one or more of the Council's Strategic Priorities (Sustainable Growth, Thriving Communities, Environmental Resilience, Affordable, available and decent Homes) and deliver strong environmental credentials where possible.
- 1.16 The options should be deliverable (including planning and highways), have a manageable impact on our locality (noise, pollution, traffic etc.) and are achievable within an acceptable timescale.

Working Assumptions:

- 1.17 The following working assumptions were also endorsed when this Olding Road project was commissioned by the Portfolio Holder for Resources and Property:
- All long-term options considered are assumed to take into account the recovery of the land acquisition costs. The recommended option does not include these as these land costs will be incorporated in any future business case that considers

the long-term site options. In the short term, specifically the £3.4 million remaining borrowing amount (former NHS logistic site, for which no borrowing provision was previously made) is proposed to be managed as part of the Council's existing treasury management budgets as they have been for the last two years. All options do not recover the assumed repayment of internal capital receipts of £4.0 million used for the West Suffolk Operational Hub (WSOH) project.

- All options include £1.0 million of remediation contributions from the WSOH business case and this budget is already agreed and a programme of works is underway. Any additional costs, given inflationary pressures, associated with remediation and decommissioning works will be managed within the overall Asset Management Plan fund.
- All options need to consider the site's remediation and decommissioning works including contamination.
- All options need to consider a longer-term solution for the current temporary planning permission for the battery storage containers in the visitor's car park of West Suffolk House.
- All options need to consider bringing back into use the former baling shed and provide for future skatepark site expansion opportunities.
- The site needs to be deliverable in terms of market demand, planning and financial viability, covering its borrowing costs as a minimum and assessed against the 1% target return on our investment, in line with the Council's Investing in our Growth Fund.
- The financial viability of the scheme has been attributed the highest priority.
- The risk profile and future flexibility and adaptability of each option is carefully considered.
- The project maintains the working relationship with West Suffolk House (WSH) i.e., car parking provision.

Business needs and service requirements:

- 1.18 The site has the potential to generate a net revenue income as part of the Council's non-operational commercial portfolio, and in turn will help support the delivery of services across the Council.
- 1.19 In the long-term, retaining ownership of the site alongside existing operational land holdings (West Suffolk House and Olding Road car park) provides options for future strategic land use decisions and retains control of the site given its close proximity to other council land holdings, West Suffolk College and the Abbeycroft leisure centre.

Constraints and dependencies (internal and external):

- 1.20 The main constraints and inter-dependencies affecting the site, regardless of use, are:

- Affordability and financial viability of the project (refer to Financial Case for further details).
- Highway capacity and subsequent highway improvements required from any development and/or change of use (refer to Risk Assessment below for further details). It is worth noting that the council has already invested in the junction improvements by the new sixth form in anticipation of any future redevelopment of this site.
- Current and emerging planning policy (further details below)
- Site contamination (asbestos in buildings, known ground contamination) (refer to Risk Assessment below for further details).
- Mix of uses adjoining and in immediate vicinity (commercial, educational, residential (Newmarket Road), retail).
- Market Demand (refer to Economic Case for further details).

Planning Policy

- 1.21 Understanding the permitted planning uses on the site is a key factor in understanding the deliverability of each option and each option's risk profile. The Development Plan Policies set out the following allowable uses:
- 1.22 The site has the current planning use as follows:
- Former Depot - 'Sui generis' (Operational depot)
 - Former Warehouse - B8 (Storage and distribution use)
- 1.23 In the current adopted West Suffolk Local Plan and within the Bury Vision (2014) (Policy BV14), the whole Western Way employment area is allocated for:
- B1- offices (now class E(g))
 - B2 - industrial
 - B8 – storage and distribution
- 1.24 In addition, the Bury Vision (2014) (Policy BV15) sets out some flexibility regarding 'Alternative business development in general employment areas' for alternative commercial business and mixed use, which do not fall within the use classes referred to above, subject to complying with other policies within the Local Plan.
- 1.25 Furthermore, the Joint Development Management Policies Document (2015) (Policy DM30) covers 'Appropriate Employment Uses and Protection of Employment Land'. The purpose of this policy is to protect employment land and uses across the district.
- 1.26 In the new, emerging West Suffolk Local Plan, Western Way is covered by Policy SP12p, which provides:

- Support for offices, research and development, light industrial and general industrial uses.
- In addition, could accommodate alternative uses such as leisure, education or health as part of a West Suffolk public/ private services hub.
- Storage and Distribution uses are excluded. Any additional (from that already in place for the former NHS logistic site) or altered storage and distribution uses on the site will require consideration and may not be supported.

1.27 The recommended **Option A** retains and partially refurbishes the existing depot and warehouse building for temporary uses including undertaking necessary internal and external works (subject to use), with a focus on delivering the 'Thriving Communities' objective in the depot and the 'Sustainable Growth' objective in the warehouse, whilst the site is retained for future development opportunities.

1.28 An offer has been received for a trampoline and virtual reality experience use within the former depot, and it is proposed that the remaining site is marketed for employment uses, that accord with planning policy applicable to the site, (or storage and distribution use as the existing lawful use, subject to acceptable HGV movements and market demand). However, if demand and rental levels are available to support the whole building delivering the 'thriving communities' objective, this will be preferred and pursued.

S73 Planning Application

1.29 The planning consent obtained for Western Way in December 2020 will remain valid until December 2025 when the planning permission will expire unless it is lawfully commenced before this time. The site is already allocated in the current Development Plan and this allocation is carried forward into the new, emerging Local Plan.

1.30 The current Section 73 planning application to allow phasing of the original planning consent for Western Way has remained on hold until a new decision is reached by Council on the future of the Olding Road site. It is worth noting that this application does not extend the timeframe for implementing the original application stated above.

1.31 This S73 application will require some further specialist input, additional fees and further consultation to progress to determination.

1.32 Considering the recommended option and the above considerations, it is therefore recommended that the application is withdrawn as there is no benefit to the Council in gaining approval, unless the original project were to proceed.

2. Economic Case

Critical Success Factors:

- 2.1 The critical success factors are as set out in the above section.
- 2.2 In order to meet the critical success factors, the following Economic Case considerations have been made for each option:
- Numerous combinations on the site have been tested from a design, demand and deliverability perspective, taking into account the above working assumptions and objectives.
 - External project management and cost advice was sought through Currie & Brown.
 - External strategic development advice on market conditions, demand, potential schemes, values and rental income levels was obtained from property consultants, Carter Jonas. An evolution of the options set out in this advice has been used, to support, or otherwise, the case for each option in the business case (see the executive summary of the Carter Jonas market report in Appendix C).

Market Advice:

- 2.3 In order to understand the levels of demand for accommodation in this location and reduce the Council's risk exposure when letting the building, market analysis and soft market testing were carried out. The table below lists the live requirements and expressions of interest that resulted from market testing.

Use	Requirements/interests	Unit size (sq ft)
Food retail	1 supermarket	25,000
Retail warehouse	4 retailers	5,000-40,000
Leisure/active leisure	1 confirmed, 2 tentative	18,000-40,000
Gym	1 interest	3,000-8,000
Builders merchants/DIY	1 confirmed, 1 tentative	21,000-25,000
Self-storage	2 occupiers	20,000-50,000
Day nursery	5 regional, 1 local	2,000-7,000
Hotels	1 requirement	27,000 (85 rooms)
Warehouse/logistics	13 active local requirements	10,000-50,000

- 2.4 Further to the market demand listed above, in the next stages, West Suffolk Council (WSC) will continue to work with partners such as Suffolk County Council (SCC) and West Suffolk College under the One Public Estate (OPE) programme, to test whether their requirements could form part of the temporary or future options for the Olding Road site.

Considered Options:

- 1.14 The options appraisal has considered a wide variety of potential uses and development options, which were shaped through discussions with the Leader of the Council, Portfolio Holder for Resources and Property and Cabinet members, to meet the council's strategic priorities whilst balanced against:
- Retaining ownership of the site for longer term opportunities in the delivery of the council's strategic priorities.
 - Providing short term flexibility to meet a challenging and changing economic market.
 - Need for financial certainty, lower capital investment options, income certainty and reduce ongoing costs.
 - Remediation of the site due to the age of the structure and materials and addressing any contamination caused by previous historic uses.
 - Current planning regulations and guidance.
- 2.5 The following long-term options have been considered in more detail (refer to the options appraisal (Appendix B) and the financial appraisal (Appendix F) for further details):
- **Option A:** Essential investment option - retention and essential and necessary repairs to the existing warehouse and depot (with change of use) and external areas to deliver the '**Thriving Communities**' (and/or '**Sustainable Growth**') objective in the short-term until a long-term option presents itself;
 - **Option B:** Demolition option – demolition of existing building, with short-term leases of yard space in the short-term until a long-term option presents itself;
 - **Option C:** Full (heavy) refurbishment option - retention and full refurbishment of the warehouse and depot including full resurfacing of external areas with the aim to deliver the '**Thriving Communities**' (and/or '**Sustainable Growth**') objective;
 - **Option D:** Full demolition and redevelopment – demolition of all buildings for the redevelopment to accommodate a retail use; and
 - **Option E:** Advanced Manufacturing and Engineering (AME) option – part-demolition and redevelopment of the site to accommodate AME units delivering the '**Sustainable Growth**' objective (long-term).

Discounted Options:

- 2.6 The options appraisal has considered a wide variety of potential uses and development options. Based on the above and following the financial and non-financial appraisals of each option, the following options have been discounted following discussions with the Leader of the Council, Portfolio Holder for Resources and Property and Cabinet members:

Option	Reasoning
Option B: Full demolition option (no development)	Removal of asset from council's portfolio. Other options show demolition and rebuild are more expensive for employment uses. Reputational risk of site remaining unoccupied.
Option C: Full (heavy) refurbishment	High capital investment – long term view on investment needed. Requires higher rental values – higher income and construction risk. Limits future use of the site. Extended programme.
Option D: Full site demolition and redevelopment for use as retail or employment	High capital investment. Contrary to planning policy (depending on uses). High income and construction risk profile. Environmental impacts. Contrary to planning policy (loss of employment site/high risk to other allocations in West Suffolk). Extended programme.
Option E: Advanced Manufacturing and Engineering Units	Linked to options appraisal in AME business case – Olding Road is not considered the preferred site to deliver AME units due to its location and other factors.

- 2.7 The option to sell the site has also been considered and discounted. Whilst this option would result in a one-off capital receipt, the opportunity of on-going revenue generation and future strategic place-shaping would be lost. This includes the ability for the project to deliver the Council's new strategic priorities and could require a small capital investment to prepare the site for sale. Another consideration is that retaining the site provides control of the site's use given its close proximity to other council land holdings.
- 2.8 The options appraisal also considered options in support of the council's strategic priority to deliver '**Affordable, available and decent homes**', however, this was discounted as a short-term option as it is contrary to current and emerging planning policy.
- 2.9 There is also a '**do nothing**' option, whereby the site is effectively mothballed. With continuing deterioration of the building and the potential to attract anti-social behaviour (ASB), this option would lead to an increase in sunk revenue holding costs to the Council, with no demonstrable upside in terms of revenue generation or policy delivery. This option has therefore also been discounted.

Recommended Option:

- 2.10 Each option has been appraised and assessed against the previously stated success criteria. Details of this work is set out in the options appraisal in Appendix B.

- 2.11 The site has financial viability challenges driven by the asset condition and the wider economic market conditions affecting all options considered. These were challenges also faced by the cancelled project. However, through further detailed financial, market and deliverability analysis, the essential investment option, described as Option A, showed the potential to cover the cost of borrowing for the build elements over 10 years, providing both an income and use for the site in the short to medium term in support of the council's strategic priorities, whilst also retaining the land for future strategic development opportunities. This option has been recommended for approval following discussions with the Leader of the Council, Portfolio Holder for Resources and Property and Cabinet members.
- 2.12 This option retains and partially refurbishes the existing depot and warehouse building for temporary uses including undertaking necessary internal and external works (subject to use), focussing on putting back into use a Council asset and supporting the Council's objectives in the short to medium term, whilst retaining the land for future strategic development opportunities. Further details of this option are included in the sections below.
- 2.13 This option targets the opportunity for delivering on the 'Thriving Communities' objective in the depot and the 'Sustainable Growth' objective in the warehouse, subject to a planning application for the change of use. An offer has been received for a trampoline and virtual reality experience use within the depot, and it is proposed that the remaining site is marketed for light industrial (or storage and distribution use subject to low HGV movements as the existing lawful use, subject to market demand). However, other uses could be pursued that fall within the planning allocation as set out in the Development Plan to respond to the market demand.
- 2.14 Option A will therefore keep the largest number of options open, at the lowest level of capital (and associated revenue) risk and allow Cabinet to pursue initiatives with wider strategic benefits if the opportunity and/or funding arises in the future.
- 2.15 This option is considered deliverable from a planning perspective on the basis it achieves the following:
- Accords with existing and emerging Development Plan policies.
 - Does not conflict with decisions made by Members in relation to alternative sites.
 - Accords with strategic priorities and local plan policy to protect and enhance existing employment areas.
 - Does not set an unwanted precedent in deviating from policy.
- 2.16 This option allows the Council to achieve three important beneficial outcomes: **1/** Reduce capital and the associated revenue financial risk compared to complete redevelopment/repurposing of the whole site by presenting an income-producing opportunity for a relatively short programme (approx. 12-18 months); **2/** Temporary uses support the 'Thriving Communities' and 'Sustainable Growth'

priority during the short to medium-term leases. and: **3/** Provides flexibility for the Council to pursue initiatives with wider strategic benefits if the opportunity and/or funding arises in the future by retaining a flexible frame.

2.17 In summary, the recommended option delivers, but isn't limited to, the following works:

- Retains the existing building structure and allows for a new roof and essential repairs to the facades but minimal external works (patch repairs only), enabling a mix of temporary uses that can respond to market demand.
- Allows for come internal refurbishment of the warehouse and depot to meet market demand.
- Allows for essential repairs or replacement where required to M&E installations throughout the building to achieve compliance.
- Provides opportunities for solar installation following the full roof replacement (subject to a separate business case).
- Retains existing battery storage on West Suffolk House visitor's car park as a permanent location, but with some visual improvements (subject to planning consent).
- Retains and refurbishes the existing baling shed for Council storage or other uses, which has the potential to include the elections and emergency planning store. These are currently located in Anglian Lane on a temporary basis until the refurbishment works of that property are completed and the property is fully let. These works will be funded from within the council's Asset Management Plan given it delivers operational storage requirements.
- Retains the skatepark site as existing for the potential to expand in the future subject to a separate business case.
- Allows for some highways improvement works (subject to further Suffolk CC Highways consultations).
- Includes land remediation and site enabling costs in line with the £1.0 million allowance (WSOH).
- Delivers an occupiable asset by approximately early 2026 (refer to programme section below for further details).

Benefits appraisal:

2.18 The recommended option delivers benefits including:

- Brings a significant property asset back into use to deliver income and provide employment.
- Meets Council objectives and helps to reestablish an employment site and delivers a community benefit.

- Retains the opportunity for a 'solar for business' project (subject to a separate business case and dependent on tenant demand) and delivers carbon savings through the reuse of the existing building.
- Financially, projected to bring a net return to the Council over the life of the project.
- Delivers a scheme that is lower financial risk than the other long-term options considered (manageable income risk exposure against capital expenditure).
- Enables us to make a decision quickly, which reduces holding costs.
- Protects expansion space for skate park.
- Enables the reuse of the baling shed for storage and releases the council owned Anglian Lane site (former Warehouse Clearance) as part of that separately agreed project.
- Retains the potential for future investment and development.

Delivery vehicle considerations:

- 2.19 The business case has a base-assumption that the Council will act as developer for the site, using external professional design, planning and costing advice, project management and construction services as appropriate. This project will be externalised in the main with some internal clienting skills utilised.
- 2.20 It is anticipated the completed property will be leased out and managed as part of the Council's asset portfolio by the Council's Property Services team.

Risk assessment:

- 2.21 All projects carry risk, the main considerations for the recommended option (**Option A**) are (but not limited to):
- Although the financial viability risk is lower than other options, there remains a residual risk associated with the cost of abnormalities (e.g. contamination, utilities, planning requirements, etc.).
 - Financial risk associated with market conditions exceeding industry forecasts (construction costs, inflation and interest rates etc.).
 - Financial and programme risk associated with unforeseen inherent latent defects in the existing frame.
 - Programme risk associated with delays, as with any construction project.
 - Insolvencies and/or availability issues within the supply chain during the delivery stage of the project.
 - Market demand from tenants for the proposed uses and the affordability of the market rents which will be dependent on the extent of refurbishment works.
 - Potential additional vehicular movements put pressure on existing infrastructure and trigger improvements/contributions to off-site or on-site works.

- Offsite highway works lead to the requirement for legal agreements to be sought from third party landowners.
- Programme delays resulting from unexpected ecological findings following updated ecology surveys.
- Programme delay putting in place lease agreements or pre-lets.
- Unknown market conditions following the general election.

2.22 The risk register (Appendix D) provides further information on the risks identified and the proposed mitigation measures for each identified risk.

2.23 As with any project, there are risks which will need to be managed/mitigated as the project progresses. Therefore, a risk allowance has been included in the financial analysis for managing/mitigating risk.

3. Commercial Case

Procurement Strategy:

- 3.1 The initial procurement strategy has been developed to reflect the Council's and public sector procurement rules.
- 3.2 During the next stage, the procurement strategy will need to finalise the procurement approach for all professional services to support the development of the work streams e.g. consultancy services, commissioning of specialist studies and surveys, the commissioning of planning related services, etc. It is expected that a mixture of options will be used depending on the nature and scale of the roles, including the purchasing of services from frameworks on agreed rates.
- 3.3 It has been concluded that the construction phase will be split into the following phases in order to optimise programme, limit risk and maximise value:
- Enabling works (strip out and internal demolition);
 - Main Construction works; and
 - Tenant fit out works.
- 3.4 It has been assumed that the demolition works will be procured via a single stage competitive tender process.
- 3.5 The procurement approach for the Main Contract works has considered a range of options from two stage 'design and build' through to single stage traditional procurement models. The provisional outcome is a competitive single stage Design and Build approach with tenders off a Main Contractor framework. This is preferred on the basis it will assist with obtaining the most competitive price. The final Procurement strategy will be reviewed at the start of the next stage.

3.6 The selection of a Main Contractor framework will be reviewed in the next stage along with carrying out an expression of interest exercise to test what market interest there is for the project.

Contractual arrangements:

3.7 A number of contractual arrangements will be required throughout the project. These will include:

- Arrangements between the Council and occupiers: covering pre-lets, leases, service level agreements covering facilities management, service charges and car parking.
- Arrangements between the Council and consultants/contractors (design and delivery phases): covering consultants, building contractor and subcontractors (as above).

3.8 There are a number of potential frameworks which could be used to deliver the consultant/contractor requirements, and this is a very efficient and well-tested form of procurement.

3.9 The Council will directly appoint the design team at the start of the next stage. The terms and conditions of these appointments will be fully considered in advance of these appointments.

3.10 The Order of Cost Estimates have been prepared on the basis of a JCT D&B Contract. To minimise the Council's exposure to risk, it is recommended that a series of standard client amendments are made. This will be reviewed and concluded in the next stage prior to tendering.

Risk Transfer:

3.11 Key to managing risk within the project is to implement appropriate contractual arrangements to ensure risks are transferred to the party who is best placed to manage it. How risk is shared will, however, affect costs.

3.12 An open and transparent approach between all parties will ensure early identification of risks and provide a productive dialogue to support their resolution.

3.13 See also risks and mitigation measures identified under the risk assessment heading within the Economic Case.

4. Financial Case

Capital Requirement:

- 4.1 The estimated capital costs shown in this section are for the recommended option and include construction costs, professional fees, risk allowance and an inflation allowance. No allowance has been made to cover the land acquisition costs for the site, as these will be factored into any longer-term plans for the site. In the meantime, the annual borrowing costs associated with the remaining land acquisition costs associated with the former NHS warehouse will be managed as part of the Council's current treasury management budgets as they have been for the past two years.
- 4.2 The construction costs are based on what is affordable in order to be able to achieve a break-even position for the council in the initial years, linked to the expected levels of rental income that could be achieved from the site. Changes to the rent levels, up or down, would have a corresponding impact on the level of capital that is affordable for the scheme.
- 4.3 The capital estimate, derived through advice provided by the Council's external cost consultants, allows for the delivery of the refurbishment and includes allowances for fees, risk and inflation that are appropriate for this stage of the project.
- 4.4 These capital estimates will continue to be refined as a greater level of certainty can be applied to the construction costs due to more design work being developed. A series of gateway reviews will be built into the programme so that we can check out assumptions against the costs as they evolve.
- 4.5 The capital requirement does not include the amount required to refurbish the existing bailing shed, as detailed in 2.17 above. The extent of these works is still to be determined and will be financed as part of the Council's Asset Management Plan.

Capital Funding:

- 4.6 We would be required to fund the capital costs of the project through prudential borrowing, with the default position being that this would come from the Public Works Loans Board (PWLB). The required budget would come from the Council's Investing in our Growth Agenda fund.
- 4.7 The Investing in our Growth Agenda fund has an overall financial target of a 1% return after borrowing costs have been applied. The recommended option is looking at an initial break-even position over a 10-year period. In order to achieve an initial net return of 1% over the 10-year period, the amount of capital available to be spent on the scheme would have to reduce from the current figure of £7 million to £6.5 million. If taken over a 15-year period, the net return exceeds the 1% fund target.

Revenue Impact including borrowing costs:

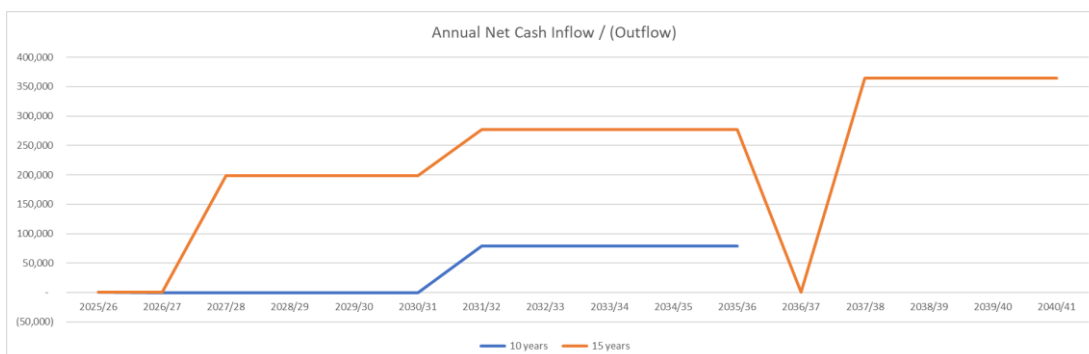
- 4.8 External advice has been sought on the levels of rental income that would be achievable from the building once refurbished.
- 4.9 The annual borrowing costs have been based on prudential borrowing on an annuity basis from PWLB. The interest rate assumed is 4.60 percent, which is in line with the rate the Council could achieve across its borrowing portfolio.
- 4.10 The table below sets out the initial revenue position assuming the building is fully let, over periods of 10 and 15 years.

Annual Revenue Implications	10-year borrowing £	15-year borrowing £
Rental Income	762,000	762,000
Borrowing Costs	(762,000)	(562,500)
Annual Surplus / (Deficit)	0	199,500
Initial Return on capital investment before borrowing	10.89%	10.89%
Initial Return on capital investment after borrowing	0.00%	2.85%

- 4.11 As detailed in the table above, the preferred option is showing that in order to achieve an initial break-even position for the Council after borrowing costs, a minimum of 10 years of return is required. Any period longer than this would create an immediate return to the Council, as shown from the 15-year column in the table.

Cash Flow projection:

- 4.12 For the purposes of assessing the impact of this scheme on the Council’s Medium Term Financial Strategy (MTFS) and beyond, a more detailed analysis of the revenue expectations has been carried out and put into a cash flow forecast.
- 4.13 This cash flow forecast includes assumptions around rent-free periods and inflationary increases. Details of these assumptions can be seen with the cash flow forecast below.



4.14 Financial assumptions:

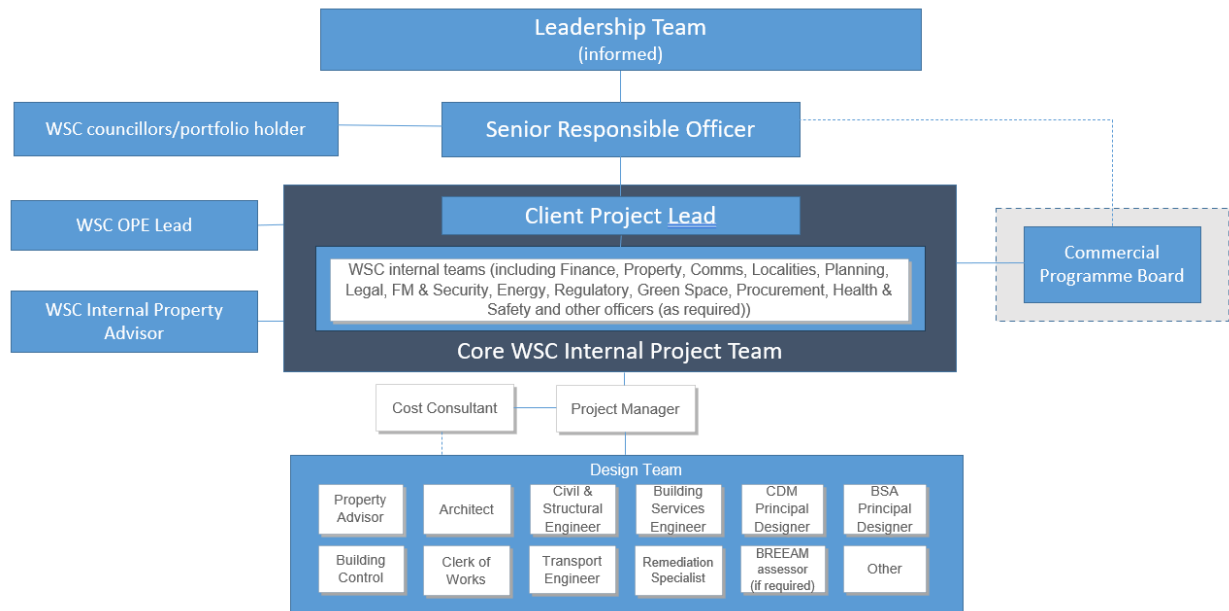
- Cash flow over the estimates life of the building once redeveloped of 10 years.
- Interest rate payable of 4.60% on annuity basis.
- 10-year lease terms, with 6 month rent free period at the start of the lease.
- 6-month void period after first lease.
- Holding costs and rent-free periods to be covered by the Capital Projects Financing Reserve.
- Inflation rate of 2.00% applied on rental income (compounded) on 5-year rent review periods.

4.15 As can be seen from the cash flow projection, over 10 years the initial returns show a breakeven position (taking into account any holding and rent-free costs being covered by the Capital Projects Financing Reserve). After the first set of rent reviews this has the potential generate a return for the Council, with rental income growth whilst borrowing costs are fixed at the start of the term. Over a 15-year project life, there is an immediate return to the Council due to the lower annual borrowing costs.

5. Management Case

Project Management plans:

5.1 The proposed project governance structure is shown below:



5.2 The governance structure will remain under review at each stage of the RIBA Plan of Work, in line with conventional project management lines.

5.3 Central to all of the above will be a designated project manager and cost consultant for the next stage of the project. Appropriate project management expertise will be employed across the project and appropriate project management mechanisms and

tools in line with the council’s agreed project management governance will be followed, which will include refinement of the project programme and risk register at each stage of the project.

5.4 The key milestone dates for the recommended option (Option A) are shown below:

RIBA Stage	Key Task	Option A
RIBA 0	Council Approval of Full Business Case	16 th Jul 2024
RIBA 1	Finalise brief and appoint team	Aug 2024
RIBA 2 & 3	Secure Agreement for lease with Depot tenant	Dec 2024
RIBA 2 & 3	Develop design and Prepare documents to submit Planning Application	Dec 2024
RIBA 4	Planning Approval granted	Mar 2025
RIBA 4	Appoint Main Contractor (assuming unphased single contract)	Mar 2025
RIBA 5	Commence Construction work on site	May 2025
RIBA 5	Completion of Construction works/ handover	Oct 2025
RIBA 6 & 7	Completion of Tenant Fit Out (subject to pre-let/marketing)	Jan 2026
RIBA 7	Opening of Facility (subject to pre-let/marketing)	2026

5.5 The programme assumes that officers will instruct the internal demolition works to proceed as an enabling works packages, funded from the already agreed £1 million works, following Council instruction to proceed with the selected option in July 2024.

5.6 Due to the level of tenant interest, the programme is structured so that the pre-planning stages of the project will progress on a speculative basis without any agreement for lease being secured however to manage risk a formal pre-let will be necessary to proceed with the submission of the planning application for the depot.

5.7 Construction sequencing of the selected option will be reviewed once the benefit of contractor’s input is available post tender.

5.8 Any required offsite Highway works are not detailed on the programmes at this stage. However, based on early discussions with the Local Highway Authority it is likely any required improvement works (if any) will be a Pre-Occupation Planning condition meaning the Highway works can be programmed to be carried out concurrent to the Main Contract works to achieve the required completion date.

- 5.9 The programme includes an indicative tenant fit out period of 14 weeks. However, this will be dependent upon the tenants' requirements meaning this duration is subject to change and will be firmed up once a tenant is secured and a pre-let in place.
- 5.10 The recommended option (Option A) offers a programme advantage over the other options with an anticipated Main Contract completion date of Autumn 2025. Allowing for the completion of the tenant fit out, it is envisaged that the facility could be operational by early 2026.
- 5.11 A detailed programme for the recommended option has been included as Appendix E.

Risk management:

- 5.12 Specific risks for the overall project are identified in the above risk assessment section of this report. In addition, a risk matrix is included in Appendix D.
- 5.13 As the project progresses, these risks will be managed through a conventional scored risk register approach, with mitigation actions identified and progress in removing or reducing the risks monitored by the project team.
- 5.14 In addition, it is suggested that an 'in the alternative permission' (under Schedule 2 Part 3 Class V of the Town and Country Planning (General Permitted Development) (England) Order 2015) is explored allowing for permitted changes of use within 10 years of the date of a permission. This could potentially provide further flexibility and increase tenancy and use options in the next stage, depending on market demand.

Use of specialist advisers:

- 5.15 Cost Consultancy and Project Management support has been provided by Currie & Brown.
- 5.16 Strategic development advice has been provided by Carter Jonas and, in addition, they will represent the Council in negotiations with the tenant secured for the depot.

Change and contract management arrangements:

- 5.17 A formal change control process will be introduced at the end of RIBA stage 2 (Concept design) in line with the recommendations set out in the RIBA Plan of Works.

Monitoring during implementation:

- 5.18 The Council's work on the project will be managed from a councillor point of view in accordance with the normal constitutional processes and, from the officer point of view, via the Council's normal programme and project management arrangements. Specifically, a lead cabinet member will be appointed to oversee the project in

liaison with the lead officer. The choice of this cabinet member by the Leader will reflect the scope of the final option chosen.

6. Recommendations and Next Steps

- 6.1 Approving this business case will reintroduce an asset into the council's portfolio, which will deliver on the council's 'Thriving Communities' and 'Sustainable Growth' objectives and provide an income in the short to medium term at the lowest level of capital risk, whilst also keeping the largest number of options open and retaining the land for future strategic development opportunities.
- 6.2 It is **RECOMMENDED** that members:
- (1) Approve the recommended option A and approach for the former depot and warehouse as set out in paragraph 2.17 of the above business case.
 - (2) Approve up to £6 million capital budget, funded by the Investing in Growth Fund, as set out within the financial case of the above business case.
 - (3) Approve the scope of works included in paragraph 2.17 of the above business case.
 - (4) Acknowledge that in line with recommendations (1), (2) and (3) above, officers will proceed in line with the Council's agreed Scheme of Delegation.
 - (5) Agree for the Council's Section 151 Officer to make the necessary changes to the Council's prudential indicators as a result of recommendations (1), (2), (3) and (4).