

**NON-EXEMPT APPENDIX TO ITEM 6
REPORT**

Rochford District Council

Asset Delivery Programme

Outline Business Case

ISSUE DATE: 12 DECEMBER 2018

EXAMPLE

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Version Control

Version	Date	Issue Notes	Issued/Checked
1	02/12/18	Draft for comment	LS/DPC
2	04/12/18	Included Executive Summary and Introduction Drafted Section on Governance for consideration by RDC	DPC/LG
3	11/12/18	Incorporating RDC amendments and addressing comments made	DPC/LG
4	12/12/18	Incorporating RDC Governance comments	MHW/AH

EXEMPT

Glossary of Terms Used

The following terms/acronyms are used in this document:

Acronym/Term	Meaning
BCIS	Building Cost Information Service, being a recognised industry source for construction benchmark costs
CA	Citizens Advice Service
Council	Rochford District Council
CSFs	Critical Success Factors, being the key assessment criteria used to drive the right project outcomes
ISFT	Invitation to Submit Final Tenders, being the tender document issued to all remaining bidders on the closure of the dialogue period inviting a final tender.
ITPD	Invitation to Participate in Dialogue, being the tender document issued to all shortlisted tenderers
JV	Joint venture: note that this OBC does not seek to prescribe the precise form of the joint venture and whether this is a formally incorporated organisation or not – this will be determined through the process of appointing a development partner. The term equally applies to more informal partnership arrangements.
LEP	Local Enterprise Partnership, being the South East LEP
NPV	Net Present Value, being a way of calculating the current value of future cashflows
OACS	Open Adult Counselling Service
OBC	Outline Business Case (being this document)
OJEU Notice	Official Journal of the European Union Notice, being a public notification of a tender opportunity. Note that the European Union (Withdrawal) Act 2018 envisages the operation of a similar system post March 2019 notwithstanding any potential transition period
PQQ	Prequalification Questionnaire, based the PAS91 standard questionnaire available to the public sector specifically for testing construction supply chains
RDC	Rochford District Council
RAVS	Rayleigh, Rochford and District Association for Voluntary Service

Acronym/Term	Meaning
RSG	Revenue Support Grant
RTCAAP	Rochford Town Centre Area Action Plan
SOC	Strategic Outline Case, being the document noted by Members in September 2018
SQ	Standard Questionnaire, being the form of PQQ publicly available for the use of procuring authorities seeking construction partners - see PQQ

EXAMPLE

1. EXECUTIVE SUMMARY

1.1. Executive Summary

In September 2018, Rochford District Council's Investment Board noted the Strategic Outline Case (SOC) to undertake a programme of works on 6 of the Council's key strategic sites with the express intent of:

- Improving financial and operational efficiencies within the Council's democratic and operational accommodation by rationalising current space across Rochford and Rayleigh and consolidating all functions into modern, fit-for-purpose accommodation in a single location
- Using the surplus sites from the above rationalisation to create new assets and amenities for the communities the Council serve, with a particular requirement to improve the community facilities in both Rochford and Rayleigh and seek opportunities for residentially-led regeneration.

This Outline Business Case (OBC) develops the "proof of concept" established in the SOC, which in turn builds upon the Council's Asset Strategy 2018-2028 which seeks to drive value and efficiency in its property portfolio. Having initially validated the strategic intent of the programme and the benefits sought from it, the OBC has assessed the different permutations available to meet these strategic objectives to arrive at a preferred solution based upon:

- The creation of a new Council democratic and operational hub at the Freight House, Rochford by converting the existing building into a new Civic and community suite and extending the existing building by constructing new purpose built office accommodation.
- The creation of a new mixed use development on the existing Mill Arts & Events Centre Site in Rayleigh that provides a combination of community, commercial and residential space
- The disposal of remaining sites, most likely for residential uses

The capital receipts created from the residential and commercial spaces created will fund the significant proportion of the new Council and community facilities, with the Council having to provide gap funding in the order of £625k¹. The new arrangements are expected, once the programme is completed, to deliver a reduction in annual revenue exposure of more than £300k when compared to a continuation of the current arrangements.

The sequencing of the various programme activities is based on a number of considerations including:

- The ability for the Council to maintain operational continuity throughout in both democratic and day-to-day operational terms
- A desire to ensure that the Council is able to provide community facilities in one of Rochford or Rayleigh at all times, meaning both key sites cannot be developed concurrently
- A desire to minimise peak borrowing requirements, bringing forward activities that realise cash receipts to enable these to fund subsequent activities

This creates a highly integrated programme that will be delivered over a 4 year period completing in Spring 2023. The critical project in this programme is the redevelopment of the Freight House as the Council's long term base, as this in turn enables the development of The Mill Arts & Events Centre and the disposal of the existing accommodation on South Street. Other sites will be disposed² of as early

¹ The SOC assumed the whole development would be cost-neutral but the updated figures within this OBC now include for risk pricing and optimism bias consistent with good practice in business cases as advised by HM Treasury, the amounts of which comprise the majority of this funding gap.

² This OBC assumes the term disposal to mean the sale of a non-operational site on a materially unencumbered long

as possible in the programme to fund the Freight House works.

The demands of this programme are significantly greater than any previously attempted by the Council, especially when considering the integrated nature of the programme and the desire to execute it "at pace" to realise the financial benefits at the earliest opportunity. With this in mind, it is recommended that the Council engage a strategic partner to support the delivery of the programme as this will:

- Provide access to the skills, management/coordination expertise and delivery capacity necessary to allow the programme to be executed in an optimal fashion. The Council does not have these skills internally, nor does it have the expertise to "buy these in" in an optimal fashion given the peaks and troughs in the programme flow.
- Share the risk on the programme outcomes, particularly in respect of the residential/commercial development activities which are beyond the Council's core business. The potential risk exposure for the Council is very significant were it to deliver the programme itself, with the total value of the programme being greater than 50% of the Council's annual operating budget. Partnership arrangements would ensure that both parties are aligned in their objectives, providing the Council with an effective means of sharing the risk (and equally the reward).
- Ensure that as an equal partner, the Council retains a high degree of control/influence on the programme and its outcomes that could not be achieved through straightforward disposal arrangements.

This approach is consistent with that adopted by a myriad of local authorities in delivering development activities and would be consistent with guidance offered by CIPFA in this area.

1.2. Recommendations

Overall, the preferred option set out in this OBC delivers:

- Fit-for-purpose Council accommodation for a capital outlay that delivers a substantial return on an affordable investment in less than 3 years
- A proposition to bring this forward in a way that best balances risk and reward from development activities by securing a development partner with wholly aligned objectives to expedite delivery and maximise the value of non-operational sites within the programme.
- New community facilities to the benefit of the communities in and around Rochford and Rayleigh as part of a housing-led regeneration offer.

Based on the above, it is recommended that the Council:

- Approves this OBC and the preferred option within it, noting that further work will be completed in respect of the final scale of community facilities in Rayleigh.
- Confirm that the Investment Board is to continue in its capacity as a steering group for the above process, providing general oversight and assurance on behalf of Members and in particular engaging in the process and endorsing the Evaluation and Award Criteria to be used in the procurement process to select the development partner
- Notwithstanding the above, provide delegated authority to Officers to prepare and implement a procurement strategy to secure a delivery partner to deliver the preferred option, with the proposed arrangements being returned to the Council for approval prior to contract signature

leasehold arrangement or a freehold basis. Other disposal options may result in the erosion of the capital receipts assumed.

2. INTRODUCTION

2.1. Outline Business Case

This Outline Business Case (OBC) develops the "proof of concept" established in the SOC to provide a definitive solution and implementation plan to allow the Council to progress the programme into the implementation stage. Following the guidelines established by HM Treasury, the OBC covers:

- The Strategic Case: why is an intervention necessary and what benefits should the Council expect to achieve as a result of such an intervention?
- The Economic Case: what are the options/permutations available to the Council to achieve its strategic intent and which one offers the best value for money?
- The Commercial Case: how does the Council secure the necessary resources (money, people, etc.) to deliver the programme?
- The Financial Case: how will the Council afford the programme?
- The Management Case: how will the programme be delivered and what governance arrangements will the Council put in place to assure delivery commensurate with its strategic intent?

2.2. Sites within the Programme

The six sites within the scope of the programme are:

- 3-15 South Street, Rochford
- 19 South Street, Rochford
- 57 South Street, Rochford
- The Mill Arts and Events Centre, Rayleigh
- The Freight House, Rochford
- The Civic Suite, Rayleigh

3. THE STRATEGIC CASE

PART A – THE ORGANISATION

3.1. Strategic Context

3.1.1. Commentary on Strategic Outline Case (SOC)

The SOC established the "proof of concept" for the re-development of a number of the Rochford District Council's strategic development sites and established that the initial development proposals had merit for further development into an Outline Business Case (OBC).

The Council's Investment Board supported the SOC and gave approval for the commencement of the OBC in September 2018.

This OBC will appraise a number of options for the development of the sites, using both qualitative and quantitative analysis in line with the HM Treasury Green Book guidance. It will establish the commercial merits of various development options, determine the optimal delivery option, how it can be delivered and the affordability of proposals for the Council.

3.1.2. Project Changes Since the SOC

An assessment has been undertaken to ascertain if any of the Council's strategic priorities have changed since the development of the SOC. The priorities and strategies are still in line with the position set out within the SOC.

The strategic sites under consideration remain as

Table 1 – Strategic Development Sites

Site	Narrative
3-15 South Street	The Council's current main office located in Rochford. The building suffers from a range of layout and maintenance issues that make it difficult for the Council to operate to optimum efficiency
19 South Street	Currently surplus to Council requirements
57 South Street	Currently surplus to Council requirements
The Mill Arts and Events Centre	Located in Rayleigh, the Mill Arts and Events Centre is a Leisure facility under a contract to a provider that is due to return to the Council in 2022.
The Freight House	Located in Rochford, the Freight House is a Leisure facility under a contract to a provider that is due to return to the Council in 2022.
The Civic Suite	The Council's main building for democratic activities, accommodating a Members' chamber and associated meeting rooms and offices. The building has back log maintenance issues and is significantly under-utilised

3.2. Current Position

3.2.1. Office Accommodation

The Council area covers an area of 85 square miles and contains c86,000 residents. The key commercial centres are within Rayleigh, Rochford and Hockley and the area benefits from good road and rail links into London and is served by a regional airport (London Southend Airport), the majority of which lies within the Council's administrative boundary.

The majority of the Council operation is split between Rochford and Rayleigh. Rochford contains the main Council office space where c152 members of staff work and the public access a range of Council services. Rayleigh contains the Council's Civic Suite which consists of a Members' chamber, associated Member facilities and Council offices accommodating a small number of Council staff.

Both buildings suffer from a number of operational issues:

- ☐ The Civic Suite is significantly under-utilised: only a handful of staff work in the building
- ☐ The Chamber within the Civic Suite is typically only used four times per month on average
- ☐ South Street (3-15) is a converted building that has limitations around condition and design. The Council has an aspiration to work in a modern, cost effective environment and this cannot be achieved within 3-15 South Street.
- ☐ The buildings have significant backlog maintenance issues which would create additional budget pressure in future years.

The current property portfolio is impacting on the quality of the service that the Council is able to provide to residents and also the Council's underlying financial position. It can reasonably be expected that without intervention, the position will decline further in the coming years.

3.2.2. Leisure Assets

The Freight House and the Mill Arts and Events Centre are part of a wider leisure contract that is operated by Fusion Lifestyle. The contract is due to expire in March 2022 and both buildings will revert back to Council operation from this date.

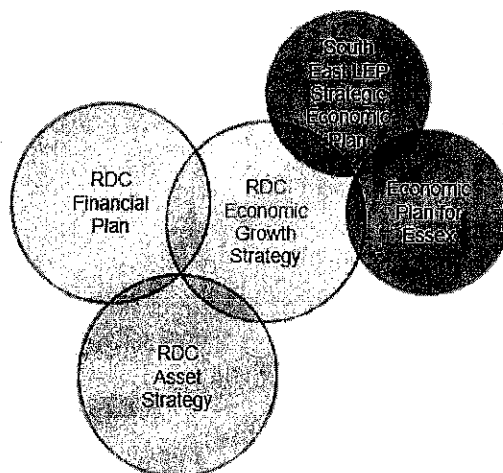
[REDACTED]

3.3. Current Council Strategies

The Council and its partners have a number of corporate strategies that are relevant to consider as part of this OBC as summarised within the diagram below:

[REDACTED]

Figure 1 – Business Strategies



3.3.1. Asset Strategy (2018-2028)

In July 2018, the Council set out its Asset Strategy with the objective of re-developing a number of key strategic assets across the District with the vision being:

"An optimised asset base that is fit for purpose, generating council receipts to help fund future investment and revenue income streams which support the council's vision of a more vibrant and sustainable district through the delivery of its portfolio through a planned programme of transformation"

The plan identified six key strategic development sites:

1. South Street (3-15)
2. 19 South Street
3. 57 South Street
4. The Mill Arts and Events Centre
5. The Freight House
6. The Civic Suite

These sites are the subject of this OBC.

The main objectives of the strategy and how the potential re-development of the sites could deliver upon these objectives are set out within the table below. Options are considered in further detail within the Economic Case:

Table 2 – Strategic Objectives

Strategy Objective	Potential Impact of Development Proposals
Financial A reduction in revenue costs, identification of revenue generating opportunities and generation of capital receipts for re-investment	<p>Any option that proposes a relocation from South Street to a purpose-built facility has the potential to reduce future running and operating costs for the Council to a level commensurate with peer benchmarks by reducing the liability for backlog maintenance costs, as well as generating capital receipts to help cross fund the rest of the development works.</p> <p>Capital receipts could be generated from the disposal of some of the sites and this could include 19 and 57 South Street, the Mill Arts and Events Centre, Civic Suite or Freight House. One site will need to be maintained as the Council's main office.</p>
Regeneration and Place Improvement of the local area for residents and businesses	<p>Options that enable the development of residential units would generate additional footfall into the town centres at Rayleigh and Rochford, providing a catalyst for increased economic activity that could create an improved night time economy and also attract new businesses to the area.</p> <p>An option that proposes the disposal and re-development of the Mill Arts and Events Centre could also create a new use for an under-utilised asset and also open up the site to make better use of the assets at the Windmill and Rayleigh Mount, creating a better place for residents and visitors to utilise.</p>
Transformational Provision of fit for purpose accommodation for Council staff and their partners	<p>The key opportunities here are the development of a new Council main office and a Members' chamber for the Council.</p> <p>The development of a new main office will reduce footprint to provide a smaller, fit for purpose facility that allows modern ways of working through good design and the use of IT.</p> <p>The Members' Chamber could provide a flexible meeting space for the Council and the wider community. The flexibility of the space will increase utilisation and meet the Council's civic requirements but also provide an asset for use by the public and business community that has the potential to generate revenue income for the Council.</p>

The re-development options set out within this OBC have the potential to assist with the delivery of the Council's Asset Strategy. The Asset Strategy has also been used to form the basis for the qualitative analysis of options with the Economic Case. Each potential development option has been evaluated according to how it meets the Council's objectives for its six key strategic assets.

3.3.2. Economic Growth Strategy

The 2017 Economic Growth Strategy sets out how the Council will play its part in driving economic growth across the district and also the wider region. The Council forms part of the South Essex Economic area and the Council's Economic Growth Plan aligns to the objectives of the Economic Plan

for Essex and also the Strategic Plans put in place by the South East Local Enterprise Partnership (LEP). Some of the key themes of the plan are:

- ☐ Encourage inward investment
- ☐ Support business growth
- ☐ Develop skills
- ☐ Support new businesses

The Economic Growth Plan sets out how the Council has an aspiration to attract new businesses to the area and bring forward land for development with a key focus on regeneration. Key elements of the strategy and how these relate to the re-development of the six strategic sites are set out in the table below:

Table 3 – Growth Strategy Objectives

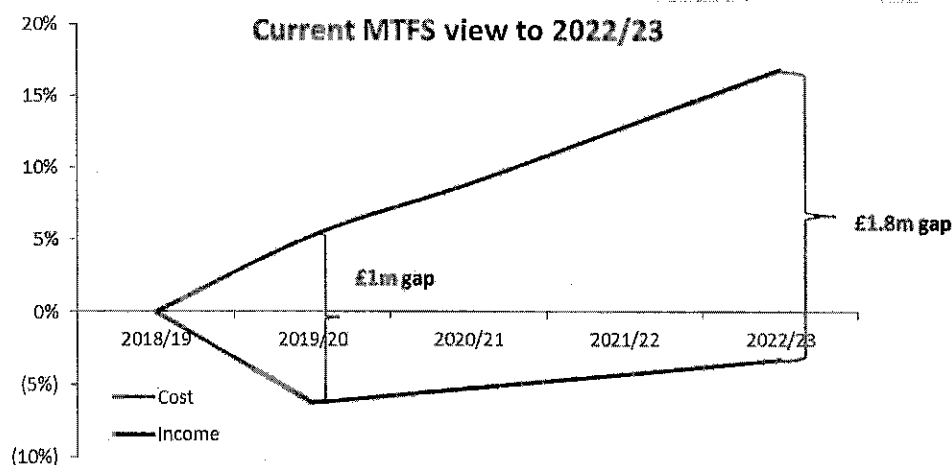
Economic Growth Strategy Area	Potential Impact of Development Proposals
Encourage inward investment	Any re-development plans for the sites will have the potential to attract housing and commercial developers, leading to additional investment into the area and also driving economic growth in Rochford and Rayleigh. This approach may also attract "follow on" investment from other landowners and businesses in the area.
Support business growth	The development of new commercial space will provide opportunities for existing businesses to grow and move into new premises within Rayleigh and could also attract new businesses to the area. Investment within Rochford, from both housing development and also the potential to re-develop the Mill Arts and Events Centre will assist traders within the town centre through increased footfall and activity close to the commercial centre. Proposals for a new Council main office will include the development of flexible space that can be used to host Council meetings and also external events. This will provide the local business community with a high-quality facility to host corporate events, training and network with other businesses
Develop skills	The development of a number of strategic sites, delivered over a short number of years will create a significant amount of development activity within the district. This will bring with it opportunities for job creation and also training and development opportunities. One of the evaluation criteria of the procurement process will be to assess the ability of the proposed organisation to generate social value (including training and employment opportunities) within the District
Support new businesses	The District benefits from excellent rail links to London and the wider region and an improved commercial offer at the Mill Arts and Events Centre and Freight House, with meeting space and also office accommodation has the potential to attract new businesses to the district, providing employment opportunities and economic growth within the District.

The proposed plans have the potential to assist the Council with delivering on a number of the objectives set out within the Economic Growth Strategy and align to wider Essex strategies.

3.3.3. Financial Plan

The Council's current financial strategy reflects a budget gap of £1.8m; this means that the Council will need to find recurrent baseline savings to this value each year by 2022/23 based on 2018/19 budget assumptions. There are however a number of unknowns which could change this budget gap, including the Government's stated intention to revisit the issue of negative RSG allocations, the Fair Funding Review and rollout of 75% Business Rates Retention, all of which will be consulted on over the coming months. In addition there remain significant risks that cost inflation could continue to rise and demand pressures could be higher than estimated based on current intelligence.

Figure 2 – Medium Term Financial Strategy



The Council has a track record of delivering savings and reported an underspend against service budgets of £1.1m in 2017/18. Plans to balance the budget for 2018/19 were agreed and are on track to deliver in the current financial year; this includes savings totalling £850,550. Delivery of further measures to balance the budget from 2019/20 and beyond are being explored and will, to a certain extent, be enabled by the successful implementation of the Asset Strategy. The Council will therefore need to continue with its transformation ambition as set out in the Business Plan, to identify further savings in future years.

The development proposals within this OBC aim to strengthen this position by –

- ☐ Better aligning ongoing property running costs with peer benchmarks through providing a fit for purpose operational facility for the Council
- ☐ Limiting future costs by reducing the overall Council operational footprint and avoiding future capital liabilities linked to backlog maintenance
- ☐ Avoiding future additional running costs related to the leisure properties at the Freight House and the Mill Arts and Events centre, which are due to return to Council ownership in 2022
- ☐ Seeking to generate third party revenue from the rental of meeting and events accommodation at both the Mill Arts and Events Centre and Freight House

The Business Plan (2016-2020) sets out a number of over-arching objectives for the Council to follow. These are set out in the table below with key areas where this project has the potential to assist the Council with delivering on those objectives.

EXAMPLE

Table 4 – Business Plan

Business Plan Area	Potential Impact of Development Proposals
<p>Become Financially Self-Sufficient</p> <ul style="list-style-type: none"> • Increase traded services • Pursue large scale commercial projects • Social benefits from commercial activity • Use of local resources • Provide what is important to residents 	<p>The development proposals offer the Council the opportunity to generate revenue income from the retention of some commercial elements of the development including commercial office space and renting out the Chamber and Council meeting space to third parties.</p> <p>The proposals will also include an allowance for community space in both the Mill Arts and Events Centre and the Freight House. The flexible approach will allow space to be use by the Council, third party commercial operators and also members of the local community.</p>
<p>Early Intervention</p> <ul style="list-style-type: none"> • Manage demand for services • Provide good quality homes • Safeguarding of young and vulnerable residents • Work closely with partners 	<p>The development of new homes in both Rayleigh and Rochford on South Street and the Mill Arts and Events Centre sites have the potential to introduce over 50 new homes into the district.</p> <p>This will provide homes for people in the area, increase the Council tax base for the Council and assist with increasing the commercial activity within those centres.</p>
<p>Maximise Our Assets</p> <ul style="list-style-type: none"> • Maximise income and social value from assets 	<p>The approach of re-developing surplus sites, utilising the returns to cross fund the development of Council assets is following a Council objective of making best use of the assets that the Council currently owns.</p>
<p>Enable Communities</p> <ul style="list-style-type: none"> • Engage with community to create full employment and apprenticeships 	<p>The development programme will offer opportunities for training and employment across the development sites. The procurement process will also assess the private sector partners approach to employment and training.</p>

3.4. Summary of Organisational Overview

The strategic reasons for investment remain as set out within the Strategic Outline case and these have been re-enforced by additional Member and Officer workshop discussions and analysis of potential options.

The Council's financial, economic growth and asset strategies are closely aligned and set out an aspiration for the Council to improve and protect its financial position, improve service delivery and make better use of a number of key strategic assets with the District. The potential re-development options of the sites under consideration within this OBC represent an opportunity for the Council to make significant gains on a number of its strategic priorities.

PART B – THE CASE FOR CHANGE

The case for change is driven by the long term financial cost of the operating the assets under consideration with the key factors being the condition and utilisation of the assets.

3.5. Asset Utilisation

3.5.1. Leisure Assets

The Leisure assets at the Mill Arts and Events Centre and the Freight House are due to return to the Council at the expiry of the leisure contract with Fusion Lifestyle in March 2022. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Table 6 – The Mill Arts and Events Centre Event Analysis

Type of Event	Number of Events	% of Events	% of Events (based on hours used)
Market / Stall Event	12	0%	3%
Meeting	54	2%	20%
Show / Seated Event	60	2%	20%
Sports Club	3,156	93%	24%
Party / Social Event	84	2%	28%
Wedding	12	0%	5%
	3,378	100%	100%

Both venues are providing a resource to the local community and consideration needs to be given to alternative venues if an option is progressed that leads to the disposal or re-development of the Freight House and Mill Arts and Events Centre.

Key consideration needs to be given to alternative:

- ☐ Sports venues or local spaces to accommodate local sporting groups
- ☐ Venues to accommodate social events and parties
- ☐ Venues that could accommodate staged events. The number of events is fairly low but could be a high priority for the local community.

The requirement for the sports groups could be accommodated from the existing leisure centres at Clements Hall or Rayleigh Leisure Centre which both have facilities to accommodate a range of activities within their sports halls and studios.

Alternative venues for sports and also the wider social uses would include local schools and community buildings. A market review has been undertaken of alternative facilities and this is set in the table below.

The table illustrates that a number of alternative facilities are available within a 3, 5 and 8 mile radius of the Freight House and the Mill Arts and Events Centre. These venues range from community halls, local schools, conference centres and private venues.

The small number of larger seated events, requiring a stage could be more difficult to accommodate. The likely solution to accommodating these events would be at one of the local high schools that have a fixed stage and local facilities to accommodate "theatre" style events. Of the social venues canvassed, 60% said that they had the facility to accommodate a temporary stage.

Table 7 – Alternative Venues

Required building type		Freight house			The Mill		
		Alternative venue number			Alternative venue number		
		Distance from Venue 0.3 miles	Distance from Venue 3.5 miles	Distance from Venue 16 miles	Distance from Venue 0.3 miles	Distance from Venue 3.5 miles	Distance from Venue 16 miles
Community Meeting	Church or school	7	4	16	16	3	9
Learning	Private / Local Authority venue & Conference centre	1	1	13	10	5	0
Meeting	Private / Local Authority venue & Conference centre	1	1	13	10	5	0
Music Event / Show	School / Private venue	8	4	17	15	7	9
Party / Social Event	All	8	5	29	26	8	9
Seated Event	School / Private venue	8	4	17	15	7	9
Wedding	Private Venue	0	0	2	1	4	0

3.5.2. Current Offices at 3-19 South Street

The utilisation of 3-19 South Street has been assessed by the Council using a survey of the current desk usage where:

- 3-15 South Street has a total floor area of 1,750m²
- 19 South Street has a total floor area of 367m².

The survey has highlighted that these buildings have 185 desks with PCs to accommodate 152 members of staff, which provides a desk ratio of 12 desks for 10 members of staff. The utilisation study also demonstrated that the desks are occupied on average 50% of the time.

The spatial inefficiency is partly driven by the layout of the buildings above. The cellular office style, reflecting the limitation of the conversions drives a greater number of desks than is needed and a greater amount of overall space. The layout also creates inefficiencies in how teams want to work together, with limited opportunity for collaborative working within and across teams.

An industry standard desk ratio would be 7 desks per 10 members of staff with a requirement of 10m² per workstation. This ratio allows for flexible working and staff being out of the workplace. This flexible approach could reduce the spatial requirement from the current position of 2,117m² down to 1,064m². The over-provision of space increases running costs and ongoing maintenance of the building.

3.5.3. Civic Suite

The Civic Suite consists of 848m² of space which includes Members' chamber and associated facilities (library, Chairman's office and meeting space), Council office and space for RRAVS, CA and OACS.

The Council occupy 228m² of space within the building and only have c 6 people working in the office⁴, and the Chamber facilities are used on average 4 times per month for Full Council meetings and planning and licensing appeals.

⁴ The premises also provides an operating base for c.3hr Community Enforcement Officers however these individuals are necessarily off-premises in order to carry out their function.

The fixed, traditional "magistrates court" style layout of the chamber does not lend itself to any other uses outside of the democratic meeting cycle. In terms of utilisation, these types of traditional facilities are very inefficient.

3.6. Financial

The financial impact of the assets under consideration is driven by both the backlog repairs and the ongoing running costs of the asset. These figures are set out in Table 9 below.

3.6.1. Leisure Assets

[REDACTED] Future service delivery options following expiration of the contract are being considered and it is unlikely that these two sites would be included within a combined future service provision with the two leisure centres [REDACTED]. An alternative use is therefore required to remove the potential liability for the Council.

3.6.2. Office Accommodation

The key financial impact of operating the current offices at 3-15 South Street and the Civic Suite is the backlog repairs liability. Both under-utilised buildings, require a significant amount of investment to address ongoing operating issues with the buildings.

The backlog maintenance estimate made by the Council would include the replacement of key elementals (heating system, flooring, air conditioning, etc.) and address existing known issues with the buildings. The investment would likely be made over a 5 year investment cycle and would represent a significant investment by the Council⁵.

The investment however, would have a minimal impact on addressing the utilisation and layout issues set earlier within this report.

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

⁵ It is recognised that this investment is discretionary on the part of the Council who could elect to continue a "just in time" policy. Consistent with both Government Policy and best practice, this OBC assumes this investment will be made to enable a like-for-like comparison with other options that equally allow for a proper maintenance regime.

⁶ These estimates have been calculated by the Council. The assumptions have been benchmarked by Gleeds based on comparable schemes. The assumptions are lower than comparable schemes and are considered prudent.

3.7. Summary

The Council currently has too much space in an aging portfolio of assets. [REDACTED]
[REDACTED] An alternative use is required for these assets.

The Council has an aspiration to work in an efficient and flexible way and the current office accommodation does not facilitate this. The accommodation is over-sized and needs a significant amount of investment to operate at the current levels alone.

If steps are not taken to reduce the portfolio of assets, the Council's ability to meet its Medium Term Financial plan targets will be materially impacted.

4. THE ECONOMIC CASE

4.1. Introduction

The options under consideration are now more developed than they were within the SOC. A long list of options has been developed and these have been refined into a short list of options that have the potential to meet the Council's requirements for the 6 key strategic sites.

This refinement has been developed through a series of workshops and meetings with Council officers and the Member Working Party to explore and understand the operating requirements in a greater level of detail.

4.2. Critical Success Factors

For Qualitative purposes, the Council have developed a list of critical success factors (CSF's) against which each of the proposed options will be assessed. These CSF's are informed by the Council's Corporate Strategies as set out at fig. 1. The criteria are set out in the table below:

Table 9 – Critical Success Factors

Economic Growth Strategy Area		Asset Strategy	Business Plan	Economic Growth
1	Does the option have the potential to bring wider economic benefit to the District?	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
2	Can the option facilitate agile working for the Council?	<input checked="" type="checkbox"/>		
3	Does the option provide a long-term future proof operating solution for the Council?	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
4	Does the option have synergies with the Council's wider property portfolio?	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
5	Can the develop option generate third party income for the Council?	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
6	Will the option generate capital receipts?	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
7	Is the delivery of the option within the Council's control?	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
8	Can the development option bring increased benefits to the community through the provision of an appropriate community facility?	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>

4.3. Operational Requirements

In order to understand CSF nrs 2 and 3 better, further work has been undertaken to determine the requirements that any valid option must satisfy in respect of:

- Democratic spaces
- Workplace Accommodation

The main reason for any long-listed option being rejected was that a site was not large enough to accommodate the Council's needs (being the main office facilities and chamber). The detail of this is set out in Appendix J.

4.3.1. Democratic Spaces

Council Members and officers have taken part in workshops to understand how the current Members' chamber and associated Members' facilities are used within the Civic Suite and what the features of any future facility would be.

As set out within the Strategic Case, the existing Chamber is under-utilised and due to the existing fixed layout, the space has minimal potential to be used outside of its formal use as the Members' Chamber. The ancillary facilities, such as the Chairman's office, library and meeting rooms are also rarely used.

Any future facility would consist of a flexible open space that can be used by Members for the delivery of their democratic role but also be flexible enough to allow the space to be booked by community groups and local businesses.

A spatial requirement is set out within the table below. The table sets out a core spatial requirement of 200m² for the chamber (which offers a larger space than the current chamber) with a further 104m² for ancillary space resulting in a total requirement of 304m². It is anticipated that the chamber will be a space that can be reconfigured for broader community uses when not in use for democratic purposes.

Table 10 – Civic Spatial Requirement

Room Name	Size (estimated) m ²	Use and comments
Council Chamber	200	Dividable by retractable wall
Flex Room	21	Meeting room and breakout space
Members' Lounge	20	Dual Purpose room and breakout space
Kitchen	13	-
AV Cupboard	3	2 x 1.5m ² dependant on AV
Furniture Store	23	-
Circulation/Entrance	13	2 x 6.5m ² Entrances
WC Facilities	11	Single Men's, Women's and Disabled
Total	304	

4.3.2. Workplace

The Council have an occupancy target of 7 desks per 10 members of staff which is in line with industry standards and is now commonplace within Local Authorities. To achieve this desk ratio will require the Council to adopt new ways of working with a more flexible use of desk space, meeting space and storage. This new approach can be summarised in the work settings below:

- **Focused** – This type of setting primarily involves lone working and concentration on a particular task or project, whether performing research or replying to email correspondence. Typical settings include the desk, small pods and booths.
- **Collaborative** - Working in a collaborative couple or group involves sharing of idea's, responsibility, goals and actions to provide a fully considered outcome. Interaction may be face to face or virtual communication. Typical settings include formal meeting rooms, meeting pods, open meeting spaces and break out areas
- **Learning** - Learning within teams has a typical environment setting of meetings spaces that have appropriate fixtures and fitting to allowing ideas to be created and shared
- **Social** - Work interactions create common bonds and values which ultimately strengthen the core base of any team. By improving interrelationships and creating a collective identity, communication within the professional environment will inevitably develop into a smoother and more integrated process. Typical settings include meetings spaces with softer furnishings, break out area's including the kitchen and refreshment areas.

The Council have a requirement for c152 members of staff to work from an office environment, with c14 employees working off-site, providing a total of c166 overall (at the time analysis was undertaken). With the use of the alternative work settings and an analysis of how teams work together in common areas (known as "neighbourhoods") the 7:10 overall agility ratio should be achievable. A more detailed analysis of the workplace requirements at the next stage could identify an improvement on this position.

A space calculation model has been used to assess the overall spatial requirement to inform the design, development cost and running cost calculations for the new main office. A summary of the spatial calculation is set out in the table below for each of the environments. The calculation shows a total requirement of 992m² for the main office.

Table 11 – Spatial Calculation

Workplace Consulting - Space Calculator

Project Title: Rochford District Council

Project Headcount: 152

Assumed agile ratio - desks per 10 people: 7

Project Inputs

gleeds®

Space Calculations			Office Requirements		
Work Style	Work Setting	Space Type	No. of Seating	No. of Seats	Total Space Required (M2)
Focus	Workstation	Private	107	107	542
	Focus Pod	Private	2	4	8
	Touchdown	Private	1	6	3
	Cellular Office	Private	0	0	0
Collaborate	Meeting Pod	Private	2	8	18
	Open Meeting Area	Private	4	15	24
	Meeting room - Small	Privileged	2	12	20
	Reception	Public	0	0	0
Learn	Visual Management Area	Private	5	-	5
	Meeting room - Large	Privileged	0	0	0
Socialise	Break Out	Private	2	8	6
	Kitchen/Tea Point	Privileged	2	15	38
	Meet and Eat/Hub area	Privileged	2	30	49
	Support Hubs	Private	4	-	16
Total (m2)					826
% of space allocated to workstations					78
% of alternative workstations					22
Circulation space (m2 20%)					165
Net Internal Area (m2)					992

Total NIA (M2) 992

M2 per Workstation 9.27

M2 per Person 6.52

Traditional Workstations (Nr.)	107
Agile Headcount (Nr.)	152
Alternative settings (Nr.)	17
Alternative seats (Nr.)	99
Total seats provided (Nr.)	206
Agile lockers (400 x 400mm)	152
Storage (m)	152

4.4. Long List of Options

A long list of delivery options was assessed for each of the sites and this list is set out at Appendix A. The list was assessed by a working party of Council officers and Members with an assessment made of whether the long list option had merit to proceed to a short list where a scoring exercise would be undertaken.

The main reason for any long-listed option being rejected was that a site was not large enough to accommodate the Council's needs (being the main office facilities and chamber).

An option for the Council to acquire a third party site for the development of a new office and chamber was also rejected on the basis that the option would be high risk (as the site would not currently be under the Council's control), it would add additional capital cost to the scheme and the Council's Asset Strategy has a core objective of making use of existing Council sites.

The option of demolishing the Freight House and re-developing the site whole site was considered within the long list but rejected on the basis that the demolition did not receive the support of the Planning Authority. The Freight House is locally listed, located within the Conservation Area and Rochford Town Centre Area Action Plan (RTCAAP) (Policy 9) states that "the Freight House is an attractive commercial building and should be retained".

The RTCAAP identifies the area to the south of the Freight House as an opportunity site where B1 (office) uses would be acceptable.

The only viable option for the two small surplus sites at 19 and 57 South Street was to re-develop the sites with a predominantly private sector use such as housing. These sites therefore did not require qualitative analysis. Only a "Do Minimum" and private sector development option have been considered.

The long list has a Do Minimum option which represents a level of investment needed to address the current condition within the buildings and to carry out a minor refurbishment. There is no "Do Nothing" option, the Council need to invest a minimum amount of capital to address the condition of the current estate.

4.5. Qualitative Evaluation Process

The qualitative evaluation processed focused on a range of options for each of the six key strategic sites under consideration and this analysis is set out at Appendix B.

It needs to be recognised however that the re-development of some sites is impacted by decisions made on other sites. The re-development of South Street for example drives the requirement for the Council to utilise an alternative site for a main office. This alternative site must therefore be the Civic Suite, The Mill Arts and Events Centre or the Freight House. Key observations made within the scoring session:

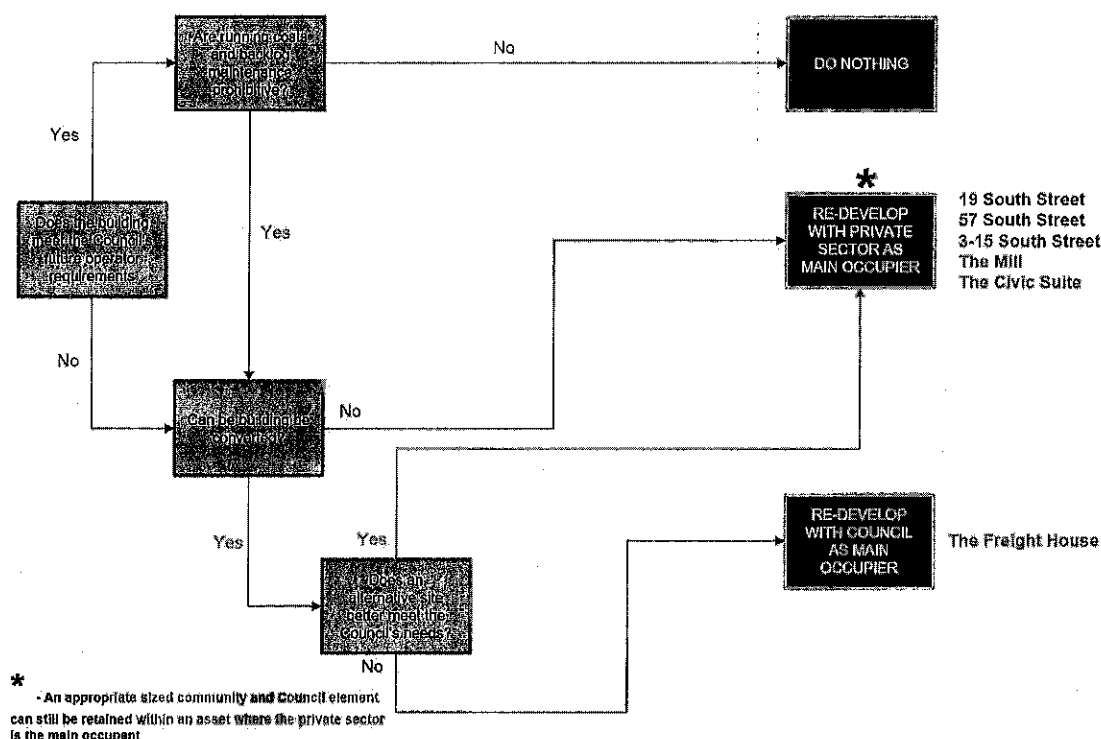
- ☐ 3-15 South Street has minimal potential for re-development for Council use with the more likely outcome being development for third party use. The initial preference was as a housing development which could stimulate the local centre and create a town centre residential offer
- ☐ The Civic Suite does not meet the needs of the Council and is expensive to maintain for what is an under-utilised asset. The site has development potential for both commercial and housing use. There could be potential to align development work the neighbouring property owned by the BTMK legal practice.
- The Mill Arts and Events Centre is a key strategic site for the Council in the heart of Rayleigh. This is likely the most valuable asset with the Council's strategic portfolio. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- ☐ [REDACTED]
[REDACTED]

The inter-relationship of the sites impacts the options that can be pursued. No option can be pursued for example that sees all sites disposed as the Council would not have a development site for a new

main office and chamber. The option of securing a third-party site was rejected on the grounds that the Council has a policy to utilise their existing assets.

The decision tree below assists with explaining the process.

Figure 3 – Decision Tree on Site Selection



4.5.1. Short-Listed Options

The short-listed options are set out in the tables below. In all cases, the term "disposal" is intended to mean the sale of the site on a freehold or materially unencumbered long-leasehold basis, allowing the site to be re-developed for residential and/or commercial uses (alongside any retained Council/community functionality), the interest in which may be sold on to retail managers or private homeowners. Alternative disposal options could be explored further but these may have an impact on the receipts assumed in this OBC.

Table 12 – Summary of Short Listed Scoring

Site	OPTION 1 Do Minimum	OPTION 2 Consolidate at Freight House	OPTION 3 Consolidate at The Mill Arts & Events Centre
3-15 South Street	Refurb for ongoing Council use	Disposal and re-development	Disposal and re-development

Site	OPTION 1 Do Minimum	OPTION 2 Consolidate at Freight House	OPTION 3 Consolidate at The Mill Arts & Events Centre
19 South Street	Disposal and re-development	Disposal and re-development	Disposal and re-development
57 South Street	Disposal and re-development	Disposal and re-development	Disposal and re-development
The Mill Arts and Events Centre	Continue to operate post current leisure contract	Disposal and re-development but retain a proportion for community use and Council touch down space	Develop new building for the Council (office and Chamber) and community use
The Freight House	Continue to operate post leisure contract	Refurb and new build extension for Council (office and Chamber) and community use	Continue to operate post leisure contract
The Civic Suite	Refurb for ongoing Council use	Disposal and re-development	Disposal and re-development

Option 1 – Do Minimum

This option would see the Council continue to operate from 3-15 South Street and utilise the Chamber and offices in Rayleigh at the Civic Suite. The leisure operations at the Freight House and Mill Arts and Events Centre would return to the Council upon expiry at 2022, with the Council taking over their operation as leisure facilities. Backlog repairs would be addressed for all retained buildings. The buildings at 19 and 57 South Street would not be required by the Council under a Do Minimum option and would be disposed.

Option 2 – Consolidation of Council Operation at the Freight House

A re-development option at the Freight House would see the Council utilise the existing Freight House for use as a flexible Members' Chamber to be used by the Council and the wider community. The facility would have meeting space available for use by local community groups and businesses.

A new extension to the Freight House would be required for the Council's main office and the existing buildings at 3-15 South Street and the Civic Suite would be disposed as they would be surplus to the Council's requirements.

Under this option the Mill Arts and Events Centre would also be disposed with an element retained as a "community hub". The hub would house a community events space, RRAVS, CA, OACS and a Council touch down point. Receipts generated would be used to cross fund the development of a new Council office and Members' chamber at the Freight House.

Option 3 – Consolidation of Council Estate at the Mill Arts and Events Centre

An option to consolidate the Council's operations on the Mill Arts and Events site would see the existing building demolished and a new building developed housing the Council's main office and a Members' chamber. Flexible space would be developed, available for hire by community and business groups. This option would see the Council dispose of 3-15 South Street. The Freight House would be retained as an ongoing leisure asset post 2022.

4.5.2. Scoring of Options

The qualitative scoring of the options by the Council officers and Member group is set out within the table below. The table demonstrates that the Do Minimum option scores poorly at 52 points with options around consolidating at both the Freight House and The Mill Arts and Events Centre scoring at 114 and 96 respectively.

Table 13 – Summary of Short Listed Scoring

OPTION 1 Do Minimum	OPTION 2 Consolidate at Freight House (Refurb)	OPTION 3 Consolidate at The Mill Arts and Events Centre
52	114	96

4.6. Economic Appraisal of Options

4.6.1. Introduction

The economic appraisal assesses the long-term revenue and capital costs of each of the options and compares the options on a Net Present Value basis. To compare all options on a like for like basis, the assumption within this business case is a 30 year project life and a discount rate of 3.5% on the underlying cashflows.

The Financial Case sets out the affordability of the project and the treatment of capital and revenue in greater detail for the Council.

4.6.2. Optimism Bias

Optimism bias is an approach recommended by HM Treasury that adds an allowance to the estimated base cost of a project based on the level of uncertainty inherent within projects that have a high level of immaturity in time, cost and scope terms. This approach reflects trends over many years and a huge number of projects/programmes that the public sector under-estimates time and cost allowances at the early feasibility stage of a project. HMT recommend that the upper bound of optimism bias for construction projects such as those proposed by the Council is set at 4% for duration (programme) and 24% for contract price, creating a total optimism bias of 28%. Consistent with the approach, these levels should be retained and used unless there are clear, project specific activities that have been completed that increase project maturity and as a consequence, allow levels of uncertainty to be wholly or partially mitigated.

This optimism bias summary is set out in the table below with a detailed assessment set out at Appendix C. The upper bound optimism bias has been reduced for this project from 24% to 11.35% in respect of contract price and the works duration reduced from 4% to 1.64%, providing a total optimism bias

adjustment of 12.99%. These reductions are a reflection of the information available on the various aspects of the programme and the work completed to date by the Council that has reduced uncertainty. The optimism bias adjustment will continue to be developed as the project progresses and costs and duration become more certain in line with guidance and good practice.

EXEMPT

Table 14 – Optimism Bias

	Works Duration (%)	Capital Expenditure (%)
Procurement	0.16	4.68
Project Specific	0.10	0.66
Client Specific	0.86	3.25
Environment	0.43	0.6
External Influences	0.09	2.16
TOTAL	1.64	11.35
UPPER BOUND	4.00	24.00

4.6.3. Risk

A risk log has been developed for the project to allow the project team to log, track and mitigate key project risks as the projects develops from the business case stage through to procurement and delivery. The key risks at this stage relate to the level of design undertaken to date and common political, planning and economic risks at this early stage of the project.

Design risk, will be mitigated as the project develops and a greater level of design work is undertaken. Bidder's designs and associated pricing will be assessed as part of the procurement process. It is at this stage that proposed partners will be able to show how the proposed spaces could work beyond the initial feasibility work that has been undertaken to date.

The Council has sought to mitigate political risk to date through working closely and consulting with Members through the Working Party which was set up via the Councils' Investment Board. Members have been able to input into the proposed long list and the qualitative scoring of short listed options. To date, the project has received the support of Members and the Council has an ongoing programme of meetings with Members and wider stakeholders.

The risk log is attached at Appendix D. The risk work to date demonstrates that a risk allowance of £153,347 should be added to the base project capital cost.

4.6.4. Assumptions within Economic Appraisal

Guidance dictates that the Economic appraisal must quantify the financial benefits that arise as a result of each of the options being considered. The key financial elements within the economic appraisal are set out below.

The options are compared using net present value analysis of the cashflows over a 30 year term, discounted at a rate of 3.5% to allow each of the options to be compared.

□ Revenue

- ⊕ Running Costs – Reflects the current running costs associated with the operation of the asset and includes maintenance, utilities and business rates.

An allowance has also been made to cover temporary office rental costs for CA, RRAVS and OACS for the period when the Civic Suite and the Mill Arts and Events centre are unavailable.

- New Revenue Income – This represents the income that could be generated from renting out the community facilities at the re-developed Freight House and Mill Arts and Events centre site. The figure is net of the additional caretaking cost that the Council will incur to service the booking at both buildings. Prudent assumptions have been used for the revenue income.
- The revenue cost assumptions are set out at Appendix F.

□ Capital

- New Build and Refurbishment – This represents the capital cost of developing new accommodation on the Freight House and Mill Arts and Events Centre sites and also addressing backlog maintenance issues on the existing assets under a "Do Minimum" option.
- Capital Receipts – These are the receipts generated from the disposal of surplus sites. The Financial Case sets out a range of delivery structures for the re-development of the sites and these structures have a range of returns and risk profiles for the Council. Within this Economic Case, a traditional land sale option has been assumed, with the Council taking no development risk. This approach generates the lowest return and incurs the lowest risk from the options under consideration, providing the most prudent position at this early stage.
- The capital cost assumptions are set out at Appendix F.

4.6.5. Option 1 - Do Minimum

The Do-Minimum option has a NPV cost of £10.1m over the 30 year term of the project

The option has a minimal level of capital investment at £0.8m, reflecting backlog maintenance which is partially offset by the receipts generated from 19 South Street and 57 South Street.

The Do Minimum option is the base option against which all other options should be considered.

Table 15 – Option 1 (Do Minimum) NPV Analysis

Do Minimum 30 Year Total £000		Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024
REVENUE						
Running Costs	(16,408)	(180)	(180)	(447)	(447)	(447)
Net Revenue Income	0	0	0	0	0	0
TOTAL REVENUE COSTS	(16,408)	(180)	(180)	(447)	(447)	(447)
CAPITAL						
New Build and Refurb	(786)	(131)	(131)	(157)	(157)	(157)
Capital Receipts	277	277	0	0	0	0
TOTAL CAPITAL	(509)	146	(131)	(157)	(157)	(157)
TOTAL COST	(16,917)	(34)	(311)	(604)	(604)	(604)
30 Year NPV @ 3.5%	(10,108)					

4.6.6. Option 2 - Consolidate at the Freight House

Option 2, to consolidate the Council operation at the Freight House, utilising the existing building and adding a new extension has the lowest cost NPV of all options considered at £5.2m. The option benefits from –

- The running costs reflect the ongoing operation of a minimum 100m² community space (this assumption would be tested and explored through market testing and dialogue) at The Mill Arts & Events Centre retained within the new development and 125m² office space for both RRAVS, CA, OACS and a Council touch down point (these detailed further in section 6.3.3). This office space is provided on a temporary basis for the duration of the redevelopment of the site to ensure continuity of service – this creates an additional revenue cost for this period (years 3 and 4 in Table 15 below).
- No backlog maintenance at 3-15 South Street and the Civic Suite as these sites are disposed of
- The majority of the capital cost for the re-development of the Freight House can be re-funded from the receipts generated from the disposal of the Mill Arts and Events Centre, the Civic Suite and 19 and 57 South Street.

The Financial Case sets out how this option could be funded with an analysis of the Council's capital and revenue budgets.

Indicative sketches for the development of the Freight House and the Mill Arts and Events Centre are included within the Management Case.

Table 16 – Option 2 (Consolidate at the Freight House) NPV Analysis

Consolidate at Freight House		Year 1	Year 2	Year 3	Year 4	Year 5
30 Year Total 2000		2020	2021	2022	2023	2024
REVENUE						
Running Costs	(7,750)	(180)	(180)	(264)	(264)	(264)
Net Revenue Income	107	0	0	(22)	(24)	6
TOTAL REVENUE COSTS	(7,643)	(180)	(180)	(286)	(288)	(258)
CAPITAL						
New Build and Refurb	(3,456)	(864)	(2,592)	0	0	0
Capital Receipts	2,833	277	1,706	849	0	0
TOTAL CAPITAL	(623)	(587)	(885)	849	0	0
TOTAL COST	(8,266)	(766)	(1,065)	563	(288)	(258)
30 Year NPV @ 3.5%		(5,276)				

4.6.7. Option 3 - Consolidate at the Mill Arts and Events Centre

The option to consolidate at the Mill Arts and Events Centre has an NPV cost of £8.9m which is higher than Option 2 to consolidate at the Freight House but lower than the Do Minimum option. Although the option benefits from a reduction in operating costs compared to the Do Minimum option, it is impacted by -

- The removal of the capital receipt on the Mill Arts and Events Centre site of £1.1m. If the Council occupies the site, then this cannot be generated. The Mill Arts & Events Centre is the Council's most valuable site as it has the potential to be developed for both residential and commercial uses within what is a mature market within Rayleigh
- A higher new build cost compared to option 2 as the Council would need to develop a new office and Members' chamber on the site. Option 2 has the benefit of being able to utilise the existing Freight House building for conversion as a Members' chamber

Table 17 – Option 3 - (Consolidate at the Mill Arts and Events Centre) NPV Analysis

Consolidate at The Mill 30 Year Total (£000)		Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024
REVENUE						
Running Costs	(9,267)	(180)	(180)	(318)	(318)	(318)
Net Revenue Income	105	0	0	(24)	(24)	6
TOTAL REVENUE COSTS	(9,162)	(180)	(180)	(342)	(342)	(312)
CAPITAL						
New Build and Refurb	(5,259)	(1,315)	(3,944)	0	0	0
Capital Receipts	1,774	277	0	1,497	0	0
TOTAL CAPITAL	(3,485)	(1,038)	(3,944)	1,497	0	0
TOTAL COST	(12,647)	(1,217)	(4,124)	1,155	(342)	(312)
30 Year NPV @ 3.5%	(8,878)					

4.6.8. Comparison of Options

A comparison of the options is set out in table 17 below. The table illustrates that option 2, to consolidate the Council's operation at the Freight House site and to dispose of the Civic Suite, 3-15 South Street and the Mill Arts and Events centre (retaining a proportion of community space) has the lower NPV of the options considered.

Table 18 – Comparison of Options

	Do Minimum 30 Year Total £000	Consolidate at Freight House 30 Year Total £000	Consolidate at The Mill 30 Year Total £000
REVENUE			
Running Costs	(16,408)	(7,750)	(9,267)
Net Revenue Income	0	107	105
TOTAL REVENUE COSTS	(16,408)	(7,643)	(9,162)
CAPITAL			
New Build and Refurb	(786)	(3,456)	(5,259)
Capital Receipts	277	2,833	1,774
TOTAL CAPITAL	(509)	(623)	(3,485)
TOTAL COST	(16,917)	(8,266)	(12,647)
30 Year NPV @ 3.5%	(10,108)	(5,276)	(8,878)

4.7. Economic Analysis

In making value-based decisions, HM Treasury guidance recognises the value and usefulness of monetising qualitative scores to establish a clearer basis for understanding the relationship between project cost and the evaluated benefits.

This is achieved by using the NPV analysis and quality scores to produce an NPV cost per benefit point figure. The lower the cost per benefit point, the more effective the option. This analysis is set out in the table below.

The analysis illustrates that Option 2, representing the consolidation of the Council operations at the Freight House and utilising the existing asset with a refurbishment generates the lowest cost per benefit point at £46,491.

Table 19 – Summary of Economic Analysis

Site	OPTION 1 Do Minimum	OPTION 2 Consolidate at Freight	OPTION 3 Consolidate at The Mill Arts and Events Centre
Qualitative Score	52	114	96
Cost NPV	£10.1m	£5.3m	£8.9m
Cost per Benefit Point	£194,231	£46,491	£92,708
Rank	3	1	2

Differential from Best Option	317%	-	99%
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4.8. Preferred Scheme

Option 2 has therefore been identified as the preferred option in this Economic Case. Subsequent cases in this OBC will now focus on the delivery and affordability of this option. Option 2 will now be known as the 'Preferred Scheme'.

4.8.1. Democratic Space

The proposal is to convert the existing Freight House structure to accommodate the Members' chamber, ancillary space and Council meeting space. The ground floor of the Freight House can accommodate 600m² of space with an additional 300m² on the first floor, providing facilities larger than those existing.

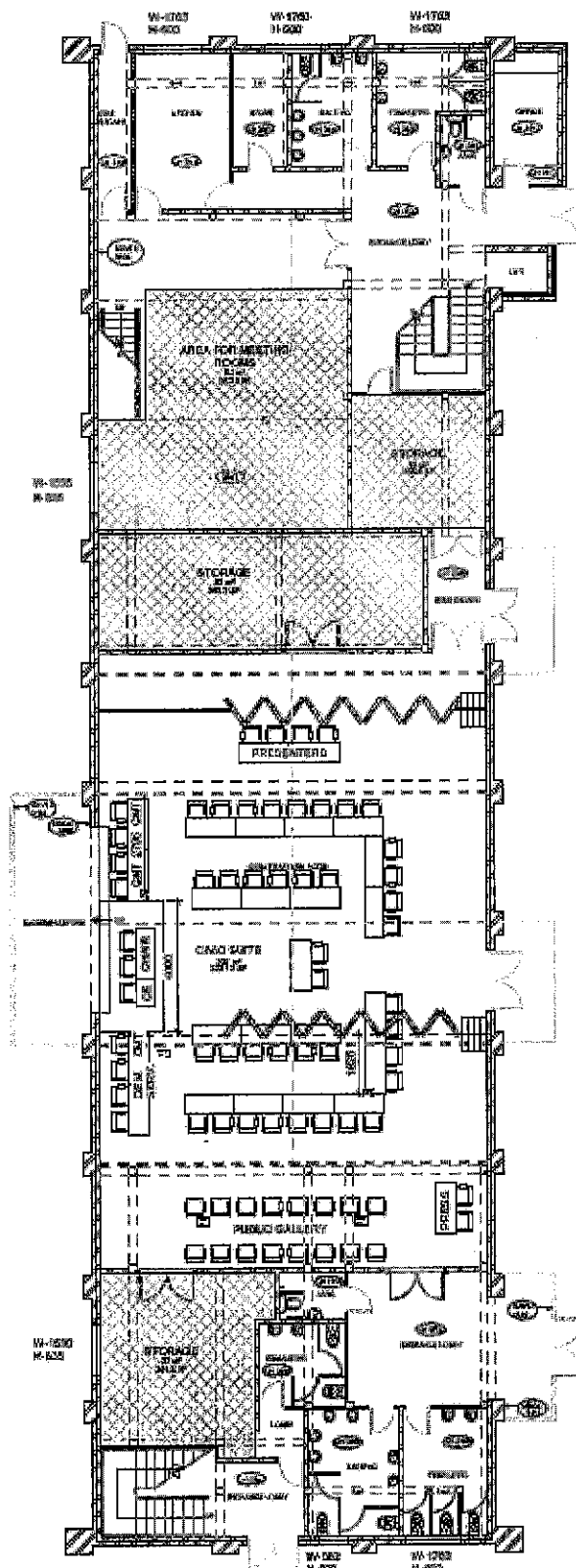
The proposal to use the Freight House to accommodate the Members' chamber will take roughly half of the ground floor space with the remainder being used for –

- ☐ Toilet facilities
- ☐ Kitchen space
- ☐ Meeting room space to be used by Members, Council officers and third parties.

The design overleaf is an example of how the space can be configured for use as a chamber.. Additional layouts demonstrating the flexibility of the space are set out at appendix K. This flexibility, allowing the same space to be available for community use when not in use for democratic activities, is created by:

- ☐ Having removeable walls and partitions to allow the room to be opened or sub-divided
- Using furniture that isn't fixed and can either be stored away or used to provide an alternative layout

The procurement process will assess bidders design proposals to make best use of the Freight House and accommodate several alternative design layouts to ensure that the space is flexible and can accommodate a wider variety of uses.



2 Proposed Ground Floor
1:100

4.8.2. Workplace

The preferred scheme proposes to utilise the existing Freight House of 918m² and develop 992m² of additional space in a connected new building. [REDACTED]

The proposal to replace the operating space at South Street and the Civic Suite with a re-developed facility at the Freight House will lead to a reduction in space of 678m² or 21%. With the inclusion of all assets under consideration, the spatial reduction is 3,199m², equating to an overall reduction of 61%.

Table 20 – Spatial Summary

Facility	Existing (m ²)	Proposed (m ²)
The Freight House – Existing	918	918
The Freight House – New Build Office	-	992
The Civic Suite	848	-
3-15 South Street	1,750	-
19 South Street	367	
57 South Street		
The Mill Arts and Events Centre	1,733	125 ⁷
TOTAL	5,616	2,035

⁷ Excludes the 100m² set aside for community use

5. THE COMMERCIAL CASE

5.1. Introduction

The purpose of the commercial case is to set out the planned approach that RDC will be taking to ensure the successful delivery of the preferred scheme. This will include developing a commercially robust procurement that achieves a best value for money solution for the Council and enables the Council to achieve its strategic objectives.

The European Public Contracts Directive is transposed into UK law by the Public Contracts Regulations 2015 and the Procurement (Scotland) Regulations 2015. It governs the procurement activities of public sector bodies and stipulates when an EU compliant procurement process must be undertaken.

The value of the works on the Freight House, combined with the Council's appetite to have influence over the development content on the Mill Arts and Events Centre site will result in an EU compliant procurement process needing to take place.

The European Union (Withdrawal) Act 2018 means that in the event of Brexit, the requirements are unlikely to materially change post-March 2019.

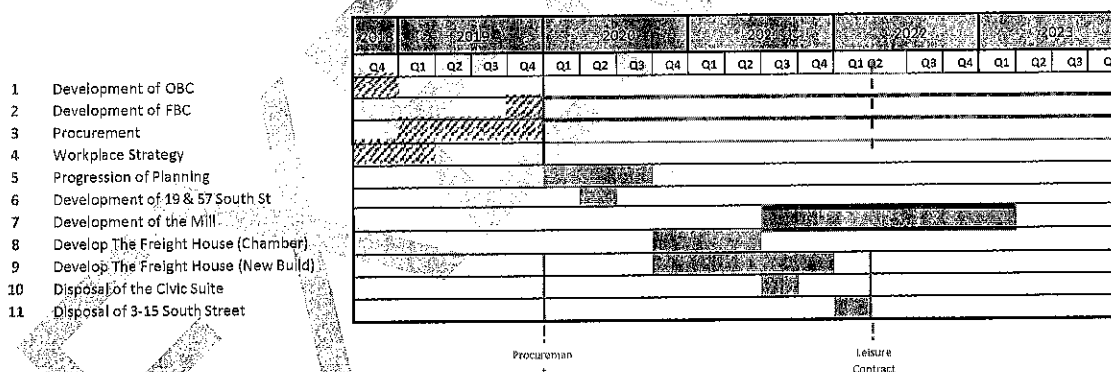
5.2. Project Sequencing

The sequencing of the projects to create the programme of delivery for the preferred scheme are set out in the table below:

Table 21 – Project Sequencing

PLAN A PROGRAMME -

PROJECT SEQUENCING



The table illustrates that the small sites at 19 and 57 South Street could be re-developed early in the programme as they have limited impact on the operating activity at other sites. This would allow cash to be realised sooner to fund other activities.

The re-development of the Mill Arts and Events Centre and the Freight House could happen concurrently after planning has been secured on both sites. This approach would impact the availability of community space at each of the two buildings however and this approach is unlikely to be acceptable to wider stakeholders. The Mill Arts and Events Centre disposal has therefore been phased until the completion of the Freight House chamber element (which provides community space) to mitigate the loss of community event space.

The completion of the new main Council office and Members' chamber at the Freight House will enable the Council to vacate both 3-15 South Street and the Civic Suite in Rayleigh, leading to the disposal of both of those sites.

5.3. Procurement Route

The first consideration to make regarding the procurement of the project is type of procurement process to be adopted.

5.3.1. Open Procurement

The open approach is generally used where the procuring authority has a high degree of certainty around what it wants to procure. It is more often used in the procurement of services where the authority doesn't need to pre-qualify bidders, a high number of bids are received and generally the lowest priced bid is awarded the project. Such a process is generally intended for the purchase of commodities.

5.3.2. Restricted Procurement

The restricted approach is more appropriate when the authority wants pre-qualify bidders to reduce the number of prior to tender, allowing the authority to evaluate a limited number of proposals. Bidders would have to meet a minimum standard set out within the Pre-Qualification Questionnaire (PQQ). Under this route however, the authority would still have to have a high degree of certainty around the solution for the project as it must be fully specified and the approach does not allow for any negotiation.

5.3.3. Competitive Procedure with Negotiation

The Competitive Procedure with Negotiation is intended for use when the Authority is able to substantially articulate its requirements but there are some requirements that could be open to interpretation by bidders. The process seeks to establish a tendered position with each bidder in similar fashion to the restricted procedure above, however it provides the Authority with the right to exercise a right of negotiation where it is considered that the tendered outcomes do not wholly align with expectations or there are aspects of the proposed solution that the authority believes could be reconfigured to provide better value for money (always with reference to the same evaluation and award criteria).

5.3.4. Competitive Dialogue

Where the solution for the project is not fully developed and the authority wants to work with bidders to develop proposals, Competitive Dialogue is more appropriate. The regulations set out a number of conditions for the use of Competitive Dialogue –

- ☐ The needs of the contracting authority cannot be met without adaptation of readily available solutions; or
- ☐ The requirements include design or innovative solutions; or
- ☐ The contract cannot be awarded without prior negotiation because of specific circumstances related to the nature, the complexity or the legal and financial make up or because of risks attached to them; or
- ☐ The technical specifications cannot be established with sufficient precision by the contracting authority with reference to a standard, European Technical Assessment, common technical specification or technical reference; or

- ☐ An open / restricted procedure procurement has been run but only irregular or unacceptable tenders have been submitted

5.3.5. The Preferred Option

The Council will want to test bidder's proposals for a number of key areas and these proposals are not yet fully developed, can be complex in nature and require different approaches to design. Key areas to test will be:

- ☐ How bidders approach the development of a new Council main office at the Freight House and how proposals make best use of the existing asset
- ☐ The viability of the community space at the Freight House and the Mill Arts and Events Centre
- ☐ How development returns from surplus sites can cross fund the development of the new Council office accommodation
- ☐ The impact that proposals have on the delivery of economic growth in Rayleigh and Rochford
- ☐ The approach that bidders take to the development of private sector uses on the properties in South Street, The Mill Arts and Events site and the Civic Suite. Bidders may propose alternative solutions including commercial, residential and leisure uses.

As the Council is unable to fully articulate its requirements on all sites and wishes to influence the outcomes delivered on each site, the Open or Restricted routes are not appropriate. The Competitive Procedure with Negotiation route may be possible, but it is considered that the number of variable elements across the sites is such that it will not be easy to establish a robust baseline position with all bidders from which negotiations can take place.

On this basis, the Competitive Dialogue process offers the most suitable procurement route available for this project, as this allows the Council opportunity to work with bidders to influence the final solutions. To ensure that the process is as streamlined as possible, it will be important to establish a clear dialogue plan to drive the process effectively.

5.4. Single or Multiple Lots

Two alternative options are available for how the procurement is packaged -

5.4.1. Multiple Lot Approach

The multiple lot approach would see the Council procure a strategic partner for the delivery of the strategic sites that would have predominantly private sector uses. Under the preferred scheme this would be all sites other than the Freight House. This would form lot 1.

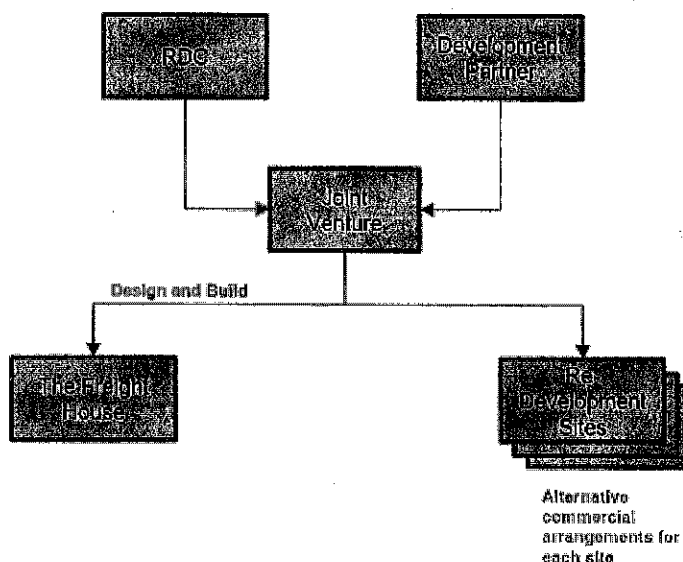
The approach would allow the Council to take a number of commercial positions for alternative sites that reflect the Council's appetite for risk and reward. This would include a low risk option for the development partner to take the sites forward themselves and joint venture approaches that would see the Council share development risk and return. These structures are set out in more detail within the Financial Case.

Lot 2 would be a separate design and build contract for the re-development of the Freight House. This approach would see the Council develop its design requirements and take a design and build contract to the market.

5.4.2. Single Lot Approach

All elements could be procured within a single lot. The Council would procure a development partner and form a joint venture. The development JV would then procure a design and build contract on the Freight House and would also progress the development of the remaining strategic sites. Alternative commercial arrangements would be possible on individual strategic sites as under the multi-lot approach.

Fig. 4 – Single Lot Approach

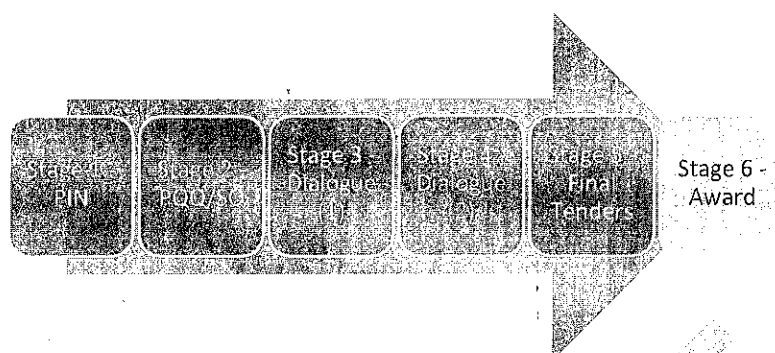


The Council have a desire to run a single procurement and the expertise should be available within the market to develop the Council accommodation and also take forward the re-development of the surplus sites. The single procurement also offers a larger opportunity for the market.

5.5. Procurement Process

The procurement process is set out in fig 4 below and key dates for each of the stages is set out in table 19. The process follows 6 key stages, commencing with the publication of the PIN through to short listing at the prequalification stage. It would be appropriate to take three or four bidders into a dialogue process held over two stages with de-selection of bidders after stage three, taking two bidders into the final stage and requesting final tenders.

Fig. 5 - Process



The timing for the key deliverables is set out below shows a ten month process for the procurement of the preferred scheme. This is an efficient timetable that requires collaboration from bidders to meet the quarter 4 2019 end date.

Table 22 - Deliverables

Deliverable	Start Date	End Date
Stage 0 – draft all procurement documentation in preparation for market launch an	Dec 2018	Feb 2019
Stage 1 – Issue OJEU notice		End Feb 2019
Stage 2 –PQQ completed and returned: evaluate responses	Mar 2019	Apr 2019
Stage 3 – Issue the ITPD document to the shortlisted bidders (likely c3). Undertake dialogue meetings with bidders during this first phase of dialogue and review responses. One bidder may be deselected from the process after this stage	May 2019	June 2019
Stage 4 – Hold further dialogue meetings with bidders to discuss proposed solutions to the strategic sites.	July 2019	Aug 2019
Stage 5 – Close Dialogue, Issue ISFT, receive bids and evaluate those tenders	Sep 2019	Oct 2019
Stage 6 – Finalise and Award contract	Nov 2019	Nov 2019

5.6. Procurement Criteria

A proposed procurement criterion for the PQQ selection questionnaire is set out in table 20. This criterion would assess the robustness of the bidder through a number of responses linked to their financial and legal standing. A range of scored questions would then assess their historic track record of delivery. The PQQ process assess whether the bidder is strong enough to bid for the scheme based on their standing and track record.

Table 23 – PQQ Selection Criteria

Economic Growth Strategy Area	Potential Impact of Development Proposals
Company Information	Pass / Fail
Declarations and Conflicts of Interest	Pass / Fail
Insurances	Pass / Fail
Financial Status	Pass / Fail
Health and Safety	Pass / Fail
Experience and Capability	Scored
Quality Management	Scored
Environmental Management	Scored
Jobs and Skills	Scored

The dialogue process will focus on the bidder's solutions with bidders demonstrating their ability to meet the Council's requirements on a sample of the sites. This would likely be a design for the Freight House and the Mill Arts and Events Centre as these are the two largest sites and a strong approach for these sites would indicate an appetite and ability to deliver across the wider portfolio.

5.7. Commercial Case Summary

The Council's desire to test the market and work with bidders to define proposals for the development sites and encourage innovative approaches on the Freight House site would lend itself to the use of the Competitive Dialogue procurement process. The likely structure of this procurement would be via a single procurement for the Freight House and the surplus sites.

An efficient process could commence in January 2019 and be completed by the end of 2019 but this relies on a collaborative approach being taken by bidders and the early development of procurement documentation by the Council.

EXAMPLE

6. THE FINANCIAL CASE

6.1. Introduction

This Finance Case sets out the whole life financial costs associated with the delivery of Option 2 - the Preferred Scheme, as described in the Economic Case.

It also sets out the whole life financial costs associated with the delivery of Option 1, the 'Do Minimum' option. This is not a viable option as it does not meet the Council's objectives but is used as a benchmark for the Preferred Scheme.

The Finance Case differs from the Economic Case in that it deals with the financial and funding implications of the project for the Council. This includes assessing cash flows associated with funding the capital cost of the new development, the cost of any borrowing and the long-term impact on revenue costs.

6.2. Capital Costs

The capital cost has been developed for the Preferred Scheme, consisting of a refurbishment of the existing Freight House building and a new build extension. A full breakdown of the capital cost is included within Appendix E.

- The new build cost is based on a BCIS Industry benchmark for the construction of office buildings within the South East of England. The cost exercise uses the spatial estimate set out within Appendix G which estimates a total spatial requirement for the Council of 991m². Further details of the spatial analysis are set out within the Management Case.
- Works to the Freight House are based on a refurbishment to office Grade A standard replace flooring, doors, lighting and remove internal walls where possible to create an air conditioned, open plan chamber and meeting spaces. Audio Visual equipment has also been included to provide the necessary infrastructure that a modern flexible space requires, together with acoustic treatments as may be required to ensure space is useable in range of large meeting settings.
- At allowance for fit out of the new office accommodation has been included at an industry benchmark rate of £1,500 per workstation.
- In line with HM Treasury guidance, optimism bias and risk has also been included as per the analysis set out within the Economic Case.

Table 24 – Capital Cost

Cost Category	(£)
New Build (Cat A) Office	1,680,319
Clearance within the Freight House	24,875
Refurbishment of the Freight House	493,571
Fit Out and AV Equipment	288,500
External Works	65,000
Sub Total	2,552,265
Prelims	204,181
Profit and Overhead	165,897
TOTAL CONSTRUCTION COST	2,922,343
Optimism Bias	379,904
Risk	153,347
TOTAL (INCLUDING RISK AND OB)	3,455,594

The table illustrates a total construction cost of £2.9m before the inclusion of risk and optimism bias. These two elements take the total capital cost within this business case up to £3.5m. It is anticipated that as the project progresses and matures, levels of optimism bias will be reduced in favour of firm estimates or tendered costs. Risk will be managed in the usual manner, with a detailed risk register being maintained to determine appropriate risk allowances to be maintained once mitigation measures have been implemented.

6.3. Capital Receipts

6.3.1. Level of Return

The potential returns that the Council could generate from the disposal of the surplus sites is set out in the table below. These returns reflect the low risk option of a developer taking all risks and the Council receiving a capital receipt for the site. Alternative structures that could see the Council take additional risk and therefore generate additional returns are set out at later within this Financial Case.

Table 25 – Capital Receipts⁸

Site		(£)
19 South Street	Residential development	158,000
57 South Street	Residential development	119,000
3-15 South Street	Residential development	849,000
The Civic Suite	Residential development with the potential for commercial use also	648,000
The Mill Arts and Events Centre	Residential development with commercial, Council and community uses on the ground floor	1,058,000
TOTAL		2,832,000

6.3.2. Profile of Return

The cash profile of the potential receipts is set out in the table below. 19 and 57 South Street can be disposed of early in the programme and the properties have minimal impact on Council operations. The Mill Arts and Events Centre site and the Civic Suite can be disposed of towards the end of 2021 when the refurbishment of the Freight House is completed. The final capital receipts relate to 3-15 South Street which can only be realised when the new build extension to the Freight House is completed.

Table 26 – Profile of Capital Receipts

	TOTAL	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024
3-15 South Street	849,200	-	-	849,200	-	-
The Mill	1,058,400	-	1,058,400	-	-	-
Civic Suite	648,000	-	648,000	-	-	-
19 South Street	157,810	157,810	-	-	-	-
57 South Street	119,123	119,123	-	-	-	-
	2,832,533	276,933	1,706,400	849,200	-	-

6.3.3. The Mill Arts and Events Centre

The Mill Arts and Events Centre could be a mixed-use development with commercial office space, a Council "touch down" point, office space for RRAVS and CAB (both Council funded) and community uses on the ground floor with residential apartments above. The base assumption is that the following space will be retained by the Council –

- 25m2 Council touch down point⁹ with a 20m2 interview space to be also utilised by RRAVS, CA and OACS.
- Minimum 100m2 Community room available for hire by local groups
- 30m2 held for RRAVS which generates a rental income of £5,000 per annum
- 50m2 allocated to CA and OACS. No rental income is generated from this space.

This community and Council funded space on the ground floor would be retained and managed by the Council. An allowance has been made within the revenue cash flows for the ongoing maintenance of the space at a cost of £123.70 per m2¹⁰. A revenue cost has also been included for the provision of caretaking services to facilitate the events within the community space.

In 2022 and 2023, CA, OACS and RRAVS will need temporary office accommodation with Rayleigh until the Mill Arts & Events Centre development has been completed. An allowance has been made within the financial analysis for this.

The development of the Council owned space requires no direct capital contribution from the Council but reduces the overall capital receipt that the Council is able to generate from the site. The capital receipt is reduced by £122,000 for the inclusion of the Council funded space.

The table below sets out the impact from increases in the amount of space taken by the Council within the development. It should also be noted that the aspiration is to create a commercial offer on the ground floor of the Mill Arts & Events Centre development. If the Council funded space was to increase substantially, this would limit the amount of commercial space available and undermine the ability to create a commercial office market within the Mill Arts & Events Centre development.

Table 27 – Impact of Community Space within the Mill Development

Assumption	Reduction in Capital Receipt	Remaining Capital Receipt	Annual Operating Cost
100m2 Community space plus 125m2 for Council (inc RRAVS, CA and OACS)	£122,000	£1,058,000	£27,833
200m2 Community space plus 125m2 for Council (inc RRAVS, CA and OACS)	£265,000	£915,000	£40,203

⁹ The touch down point is assumed to be a front-counter style service point for council services with an associated workstation.

¹⁰ Industry benchmark provided by Gleeds

Assumption	Reduction in Capital Receipt	Remaining Capital Receipt	Annual Operating Cost
300m2 Community space plus 125m2 for Council (inc RRAVS, CA and OACS)	£408,000	£772,000	£52,573

6.4. Revenue Costs

The revenue costs of the Preferred Scheme have been compared against the Do Minimum option within the table below. The revenue costs consist of –

- The running costs of the accommodation which are based on industry benchmarks and have been included at a rate of £123.70m2.

□ [REDACTED]

- The assumption within the Do Minimum is that the existing buildings will be managed and maintained in line with industry benchmark after the completion of the backlog maintenance
- The new revenue income generated from events within the community space at the re-developed Mill Arts & Events Centre site and Freight House. This is net of caretaking costs to facilitate the events. Prudent assumptions have been used and this business does not rely on third party income to be financially viable

Note that no income is assumed from operating in a landlord capacity in the commercial space created by redevelopment. Opportunities for this are discussed further in section 6.8.2, however it is recognised that this is not the Council's core business.

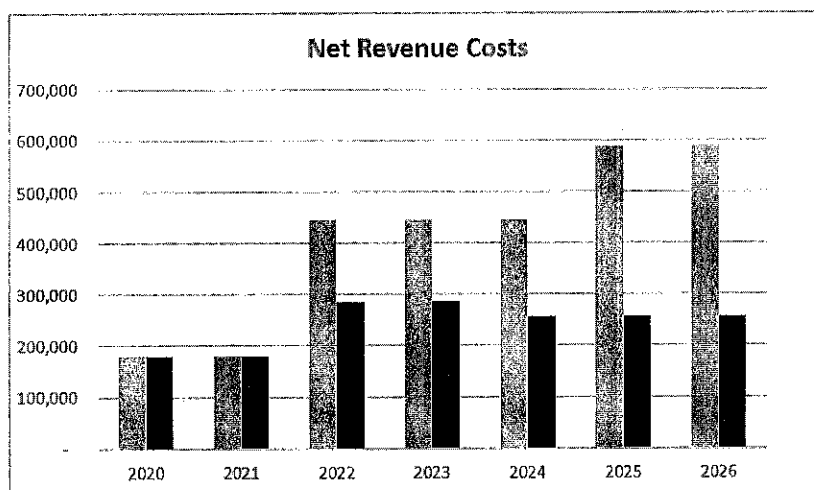
The table and associated chart demonstrate that the Preferred Scheme could generate ongoing annual revenue savings of in excess of £300,000 per annum for the Council compared to the Do Minimal option.

A detailed breakdown of revenue costs and income is included at Appendix H.

Table 28 – Net Revenue Costs

	30 Year Total	Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023	Year 5 2024	Year 6 2025	Year 7 2026
DO MINIMUM								
Running Costs	16,407,815	179,500	179,500	446,500	446,500	446,500	588,373	588,373
Net New Income	-	-	-	-	-	-	-	-
	16,407,815	179,500	179,500	446,500	446,500	446,500	588,373	588,373
PREFERRED SCHEME								
Running Costs	7,750,322	179,500	179,500	263,976	263,976	263,976	263,976	263,976
Net New Income	(107,125)	0	0	21,908	23,769	(5,877)	(5,877)	(5,877)
	7,643,198	179,500	179,500	285,884	287,745	258,099	258,099	258,099
VARIANCE								
		-	-	160,616	158,755	188,401	330,274	330,274

Figure 6 – Net Revenue Cost Comparison



6.5. Overall Funding and Affordability

The capital profile of the Preferred Scheme is set out in the table below. The table demonstrates that the project has a net capital funding requirement from the Council of £623,057 which represents a capital costs of £3,455,590 partially offset by capital receipts of £2,832,533. This represents a change from the SOC which determined that the overall programme would be broadly cost neutral in capital terms. Whilst this change is in minor part attributable to some changes in assumption on the costs/receipts, they are largely driven by allowances for risk and optimism bias in preparing the financial estimates for this OBC in accordance with best practice. The timing of the capital receipts however dictates that the Council must cash flow a maximum capital gap of £1,472,257 in 2021.

Table 29 – Capital Funding

	TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5
		2020	2021	2022	2023	2024
CAPITAL						
Cost	3,455,590	863,897	2,591,692	-	-	-
Receipts	(2,832,533)	(276,933)	(1,706,400)	(849,200)	-	-
Net	623,057	586,964	885,292	(849,200)	-	-
Cumulative		586,964	1,472,257	623,057	623,057	623,057

The Council could elect to fund this gap with reserves or borrowing and the assumption within this business case is borrowing. The funding assumption is that the Council would draw down loans for the capital requirement in year 1 and year 2 and repay these loans with capital receipts. The Council would then have a long-term residual loan of £623,057 to be repaid over 30 years.

The revised revenue position representing this approach is set out in the table below. The table demonstrates the Council would pay funding costs of £25,553 in 2020 and £100,212 in 2021. The residual loan would cost the Council £31,378 per annum.

The revised revenue position, with the inclusion of borrowing costs at £283,600 at year 7 remains significantly lower than the Do Minimum option of £588,373 per annum.

Table 30 – Revised Revenue Position

	TOTAL	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
		2020	2021	2022	2023	2024	2025	2026
Running Costs	7,750,322	179,500	179,500	263,976	263,976	263,976	263,976	263,976
Net New Income	(107,125)	0	0	21,908	23,769	(5,877)	(5,877)	(5,877)
Funding Cost	(1,003,860)	25,053	100,212	31,378	31,378	31,378	31,378	31,378
	6,639,338	204,553	279,712	317,262	319,123	289,477	289,477	289,477

6.6. Scenario Analysis

In line with HM Treasury guidance, scenario analysis has been undertaken to assess the impact of changes in key variables upon the affordability of the project. The key variables assessed within this business case are movements in capital costs and capital receipts.

The impact of cost movement and capital receipts on the project NPV, 30 year cash flow and annual cash flow (with year 5 being used as the base year for analysis) is set out within the table below.

A capital cost movement of up to 20% could add an additional 9% or £25,189 to the revenue position of the Council. When considering the risk of cost movement, it should be noted that risk and optimism bias have been added into the capital cost base of the project at a combined rate of 18.2%.

A reduction in the level of capital receipt generated from the surplus sites of up to 20% could add an additional 10% or £28,531 to the annual revenue position of the Council.

Table 31 – Scenario Analysis

	Project NPV (£)	30 Year Total (£)	Per Annum (Year 5 Used as Base Year) (£)	% Movement Against Revenue Base
PREFERRED SCHEME - BASE	5,177,558	6,472,920	283,600	
CAPITAL COST				
-20%	4,728,991	7,161,903	259,610	-8%
-10%	4,953,274	6,817,411	271,605	-4%
+10%	5,401,841	6,128,429	295,595	4%
+20%	5,648,553	5,749,489	308,789	9%
CAPITAL RECEIPT				
-20%	5,702,846	5,674,069	312,131	10%
-10%	5,440,202	6,073,495	297,865	5%
+10%	4,914,914	6,872,346	269,335	-5%
+20%	4,626,005	7,311,714	253,643	-11%

In order to stress-test the Preferred Scheme, an analysis has been undertaken of the level of capital cost movement that would be required to bring the NPV of the Preferred Scheme in line with the Do Minimum option. The capital cost would have to increase by 270% from £3.5m up to £9.5m in order for the Preferred Scheme to be less favourable than the Do-Nothing option.

6.7. Alternative Development Structures

The financial analysis developed with this business case assumes a level of capital receipt generated from the disposal of the sites with the Council taking no commercial interest in the development of those sites. The Council would have no risk beyond the disposal of the site.

The only site where the Council would hold an interest will be the retention of the community space and Council office on the Mill Arts and Events Centre site but this approach would not include taking development risk on the development.

Alternative structures are available that could see the Council take an additional level of development risk in exchange for a greater share of capital return from the sites. These options were initially explored with the Strategic Outline Case and are set out again within the table below.

Table 32 – Alternative Delivery Structures

	Land Sale	Development Partner	Self-Development
Complexity to deliver	Low complexity	Medium complexity. Approach based on a development agreement and programme.	Less complex for smaller sites such as 19 and 57 South Street. Highly complex for all other projects
Resource level required	Minimal required	Will likely still require 1 FTE to work with the developer plus client-side external team.	A significant amount of resource is required (either internal and external resource used)
Skills and expertise required	Minimal required	The Council can rely on developer expertise	Development expertise is required to maximise value and value and also manage key risks.
Funding requirement	Limited funding needed, potential to progress sites through planning (outline) to increase value.	Project would need to be cash flowed to fund the Council accommodation project. Potential to use developer finance (at a cost)	The Council would be self-funding the development costs for all project and taking the risk that this could be recouped from the sale of individual housing and commercial units
Risk	Low risk delivery via a simple process but risk of non-delivery by purchaser	Shared development risk with the development partner.	High risk and likely unacceptable to the Council on larger projects.
Control	Limited control after land sale beyond planning	Shared control via the development agreement.	All control resides with the Council.

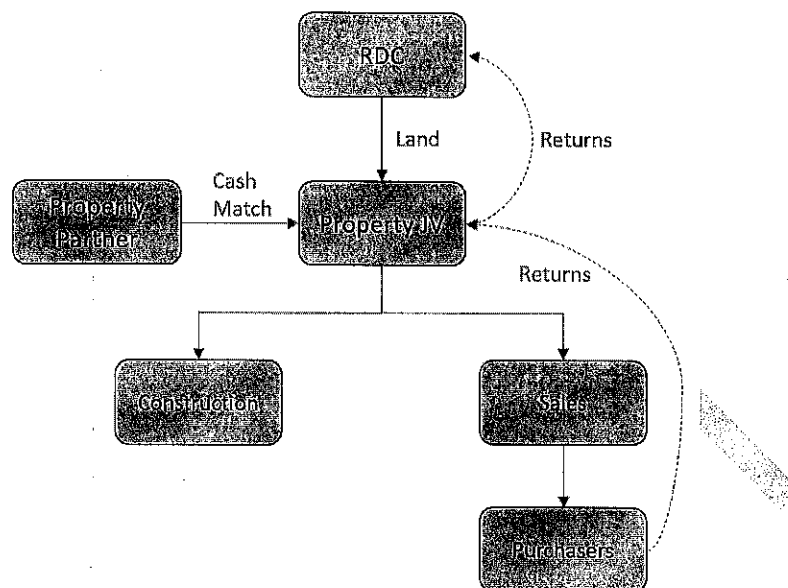
	Land Sale	Development Partner	Self-Development
	powers.		

The option of the Council self-developing should be ruled out. This is a high-risk option for the Council and would require a significant amount of development expertise and resource. The Council do not currently have this in place and the recruitment of the resource and the risk involved within the development would be prohibitive.

The more likely option to be pursued by the Council would be to take joint development risk with a development partner. This approach is set out in the diagram below. The approach would see the Council form a joint venture with a development partner and invest the sites into the JV. The developer would match this land investment with cash to enable the JV to have the funds available to complete the developments. All returns generated by the JV, including the cash match would be shared between the partners.

This is one example of a joint venture structure and they can take a number of forms, including the Council being a minority stakeholder with less than 50% interest within the JV. The actual structures can be tested in greater detail during the dialogue process during procurement.

Figure 7 – Development Partner Structure



This option has the potential to yield a greater level of return for the Council in exchange for the higher level of risk taken. An analysis of this option indicates a potential return of £4.7m compared to a base land sale option of £2.8m representing an increase of 68%.

This is a higher risk option than a land sale and would delay the capital returns received by the Council and put those returns at risk. The completion of the Mill Arts & Events Centre site is unlikely to be completed until part way through 2023. This approach would require the Council to fund the development of the Freight House for an additional year beyond the base assumption of pursuing a traditional land sale.

6.8. Council Acting As An Investor

The disposal of the sites also presents the Council with an opportunity to act as investor for the property developed. Under this option, the partner would develop out the sites and hand the completed assets over to the Council for the Council to retain the assets as investments, probably in an arms-length trading entity. The Council would borrow to fund this approach and repay the long-term funding with the rental returns generated from the assets.

6.8.1. Housing

The proposals for properties on South Street (19, 57 and 3-15), the Civic Suite and the upper floors of the Mill Arts and Events Centre involve the development of residential property. If a Local Authority holds residential property (even within the General Fund) then this property is still impacted by Right to Buy legislation. A "secured" tenant could trigger a Right to Buy request and receive a substantial discount on the value of the property. This approach would be commercially unviable for the Council as an investor.

Local Authorities who invest in residential property set up an arm's length trading vehicles and grant tenants an "assured" tenancy which is typical within the private residential letting market. This approach falls outside of Right To Buy legislation but would require the Council to set up a separate trading entity.

The management of residential property can also be intensive with the letting and ongoing maintenance of the properties. Local Authorities can accommodate this if they have an existing portfolio of properties and can achieve economies by adding additional properties. The Council does not currently manage a portfolio of residential property and the management of individual units could be prohibitive.

The scale of the residential development opportunity does not justify the creation of a separate development entity to hold and manage the properties and the Council acting within an investment capacity should be ruled out. The Council already has a vehicle established which could be purposed for this function, however it remains that this activity is wholly outside of the Council's current operations and it would represent a material new risk to the Council finances at a scale that may be inappropriate from a governance perspective.

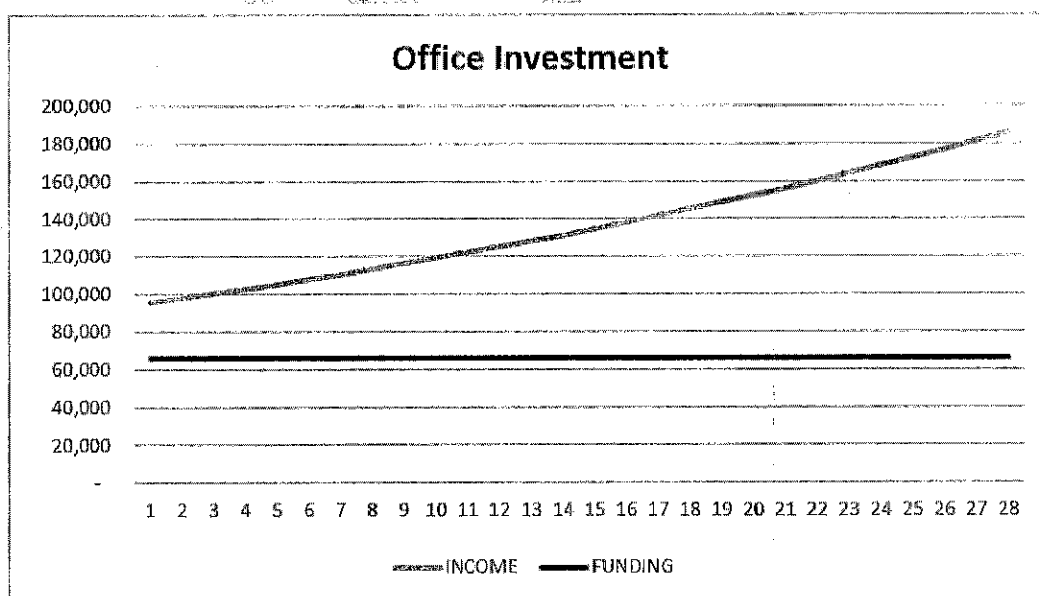
6.8.2. Commercial

The more likely investment role for the Council would be to hold the commercial office accommodation at the re-developed Mill Arts and Events Centre site. Under this approach the Council would borrow to purchase the completed assets from the developer and let the units out to individual tenants. The rental income would be retained by the Council and used to repay the borrowing costs with any surplus being retained by the Council.

The chart below shows the potential profile of the investment. Key assumptions are:

- £16 per sq. ft rental income with a void rate of 10%
- 6,620 sq. ft of commercial space based on the initial design proposals
- Purchase cost of £1,323,997 based on the development appraisal completed on the Mill Arts and Events centre site
- Borrowing rate of 2.8% (annuity) over 30 years

Figure 8 – Office Investment



The potential for the Council to invest in the commercial office space could generate a net return to the Council of £30,000 per annum¹¹. This surplus will increase due to inflation within the local rental market but the funding cost will remain stable with the use of a fixed annuity.

The Council taking this investment approach also has other advantages –

- The Council would be de-risking the development for the development partner. The developer is unlikely to take the development forward unless pre-let agreements can be secured on a number of the commercial units to provide the confidence required. This could delay the development. An approach where the Council bought the assets and held them as investments would remove this risk for the developer.
- The Council could continue to hold the office space in the long term or sell the investment when the units were fully occupied, and the risk was reduced for potential purchasers. This would generate additional capital income for the Council for investment into future schemes or pay down the borrowing on the Freight House re-development.

6.9. Summary of the Financial Case

The financial case demonstrates that the Preferred Scheme is significantly more favourable than the Do Minimum option with an annual revenue saving of over £300,000 per annum. The Preferred scheme will require a capital investment by the Council to cash flow the re-development of the Freight House site and this investment will be partially re-paid from capital receipts but a long-term loan of £623,057 will remain costing the Council £31,378 per annum.

The Council could improve upon this financial position with the use of joint venture structures to share a degree of risk within the developments to generate a greater level of return. This approach could delay the Council's capital receipts and extend the period of borrowing for the Council.

The Council could also improve its financial position through holding the commercial office space as a form of investment and this could assist with ensuring that the whole development progresses as planned. A similar approach to residential investment has been ruled out due to the management time required and the need to set up a separate arms-length trading arm.

¹¹ As noted in section 6.4, this income stream has not been included in any projections at this stage as this activity goes beyond the Council's core business. This income would therefore be additional to forecasts.

7. THE MANAGEMENT CASE

7.1. Introduction

The Management Case covers a number of management issues relating to both the delivery of the programme and the resultant assets.

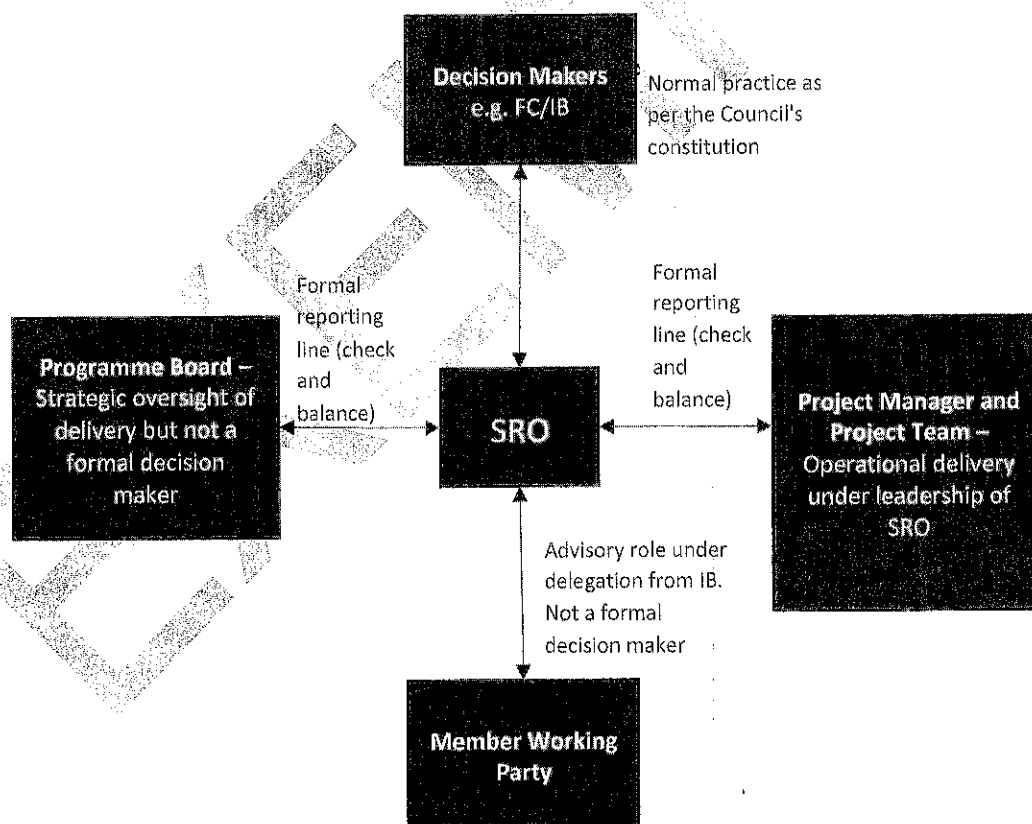
7.2. Project Governance

7.2.1. Governance Structure

The programme has through the SOC and OBC had an established governance structure and project team, reporting to the Council's Investment Board to make key project decisions under the delegated authority of Full Council. The OBC will be approved by Full Council, providing a clearly established base position from which change can be managed.

It is proposed that this structure evolves to meet the changing demands of the programme as it proceeds into the procurement phase as follows:

Figure 9 – Governance Structure



Within the above structure:

- The Project Board comprises Members and Officers, with the relevant Portfolio Holders. This will form the key day-to-day governance arrangements, liaising with the Investment Board as

may be appropriate in the event of unexpected change. The Project Board is expected to meet immediately prior to key milestones or as may be sought by the SRO.

- The Member Working Party will be an advisory group intended to provide guidance and opinion to the SRO through the process, minimising the risk of the project developing in a manner inconsistent with Member expectations without placing Members into a position of conflict in formal decision making. The Working Group will meet on a regular basis throughout.

7.2.2. Project Milestones

The use of the Competitive Dialogue process requires a decision making structure that allows those present in dialogue meetings to make decisions in order to advance discussions towards a successful conclusion. The Project Gateways have been designed to allow this agility through the process, but equally to allow Members the ability to review and make decisions at critical milestones.

Table 33 – Milestone Decisions/Approvals

Milestone	Decision Forum
Approval of this OBC (and as a consequence establishing the project plan)	Full Council
Preparation of Project Documentation excluding Evaluation & Award Criteria	SRO
Approval of Evaluation & Award Criteria	Investment Board
Issue of OJEU	SRO
Approval of PQQ Assessment Outcomes (i.e. the Tender Shortlist)	SRO
Close of Dialogue and issue of Invitation to Submit Final Tenders	SRO
Approval of Final Tender Evaluation Outcomes (i.e. identification of Preferred Bidder)	Investment Board
Approval of final contractual arrangements and decision to enter into the partnership contract	Full Council

7.2.3. Managing Change

Change is defined as any material alteration to the project scope, commercial proposition or financial circumstances. The reference point for this is this OBC once approved. Governance around change will be managed as follows:

- Change will be discussed at every Project Board with general changes (whether material or otherwise) being noted for the record.
- Where the SRO, working with the project team, becomes aware of a potential material change, they will at the earliest opportunity discuss this with the Chair of the Project Board to agree how best to proceed. An extraordinary Project Board may be convened if considered appropriate.
- Under advice from the Project Board, changes will be escalated to the Investment Board, Council Executive or Full Council as might be appropriate

7.3. Project Team

7.3.1. Internal Project Team

The Council's internal team will be as follows:

- Senior Responsible Owner: Matt Harwood-White: Strategic Accountability.
- Project Director: TBA: Operational Accountability. It is expected that this role will be put in place prior to the conclusion of the dialogue phase to allow the individual in post to better understand the nature of the arrangements and the rationale underpinning the final positions on which contractual arrangements are based.
- Project Management Office: Support of internal project reporting.

7.3.2. External Support

To ensure the Project Team has access to the necessary skills and expertise to complete the procurement, they will be supported with the following external resources:

- Project Manager, Technical and Commercial Adviser: Gleeds, who in turn will secure additional specialist resources as may be required.
- Legal Adviser: to be appointed.
- Financial Adviser with public sector finance experience.

7.4. Programme

The programme for the procurement of the project is set out in the table below. This is an efficient programme and requires resource to be available within the Council team through the procurement and also co-operation by quality bidders.

Table 34 – Programme

Deliverable	Start Date	End Date
Stage 0 – draft all procurement documentation in preparation for market launch an	Dec 2018	Feb 2019
Stage 1 – Issue OJEU notice		End Feb 2019
Stage 2 –PQQ completed and returned: evaluate responses	Mar 2019	Apr 2019

Deliverable	Start Date	End Date
Stage 3 – Issue the ITPD document to the shortlisted bidders (likely c3). Undertake dialogue meetings with bidders during this first phase of dialogue and review responses. One bidder may be rejected from the process after this state	May 2019	June 2019
Stage 4 – Hold further dialogue meetings with bidders to discuss proposed solutions to the strategic sites.	July 2019	Aug 2019
Stage 5 – Close Dialogue, Issue ISFT, receive bids and evaluate those tenders	Sep 2019	Oct 2019
Stage 6 – Finalise and Award contract	Nov 2019	Nov 2019

7.5. Risk Management

Risk analysis has been undertaken by the Council and facilitated by Gleeds as part of the production of this OBC. A full risk register has been developed on this basis to provide a comprehensive list of all risks to the project. Each risk has been categorised and assigned an impact and likelihood to develop and overall risk score. The Risk Register is a live document and will evolve during the course of the procurement and indeed over the course of the project. The risk log is attached at appendix D.

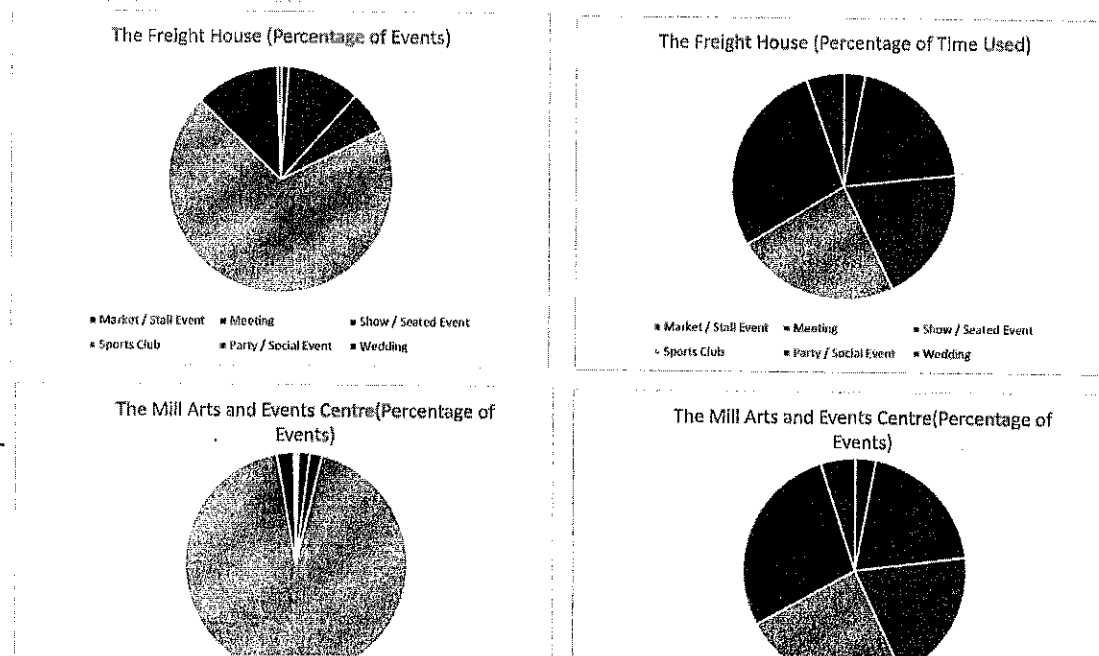
7.6. Management of Community Assets

7.6.1. Impact on Community Assets

The Strategic Case set out the range and number of events held at both the Freight House and the Mill Arts and Events Centre. This is set out within tables 6 and 7 of the Strategic Case and the pie charts below.

An analysis of the number of events demonstrates that the majority of the events are sports related but an analysis of the actual number of hours booked shows a more balanced profile reflecting the longer bookings for parties and seated events.

Figure 10 – Leisure Asset Use



The Freight House events are mainly held within the Great Eastern Room and this room will be preserved under the Preferred Scheme. The flexible layout of the chamber space will allow furniture to be stored or re-configured to accommodate a range of alternative events.

The refurbishment represents a significant investment by the Council and will include replacement of flooring (likely to be carpet for acoustic reasons), wall coverings and doors. The room could spatially accommodate the majority of events on the existing event calendar. The Strategic Case demonstrated that a number of local venues are available to host these events.

The reduced amount of community space at the Mill Arts and Events Centre under the Preferred scheme will impact the event programme. The significant number of sports booking could be accommodated within local community halls and also the local leisure centres. The seated events represent more of a challenge and the likely solution would be the use of one of the local high schools or other local facilities as they have stage facilities or the renting of a temporary stage in local private venues.

The base assumption is the for community space within the re-developed Mill and Arts Centre site to be a 100m² event space. This will accommodate the majority of bookings based on the existing booking profile. A range of options will be tested with potential bidders to assess the financial feasibility of a larger facility, whether this can be funded from the wider development and the impact that a larger facility could have on that development.

7.6.2. Management and the Leisure Contract

The Council would need to manage the community space at both the Mill Arts and Events Centre and Freight House. An assumption has been made within this business case that the Council would employ 2 FTE to set-up the rooms for events.

The existing leisure contract is due to be re-tendered as the existing contract expires in 2022. Both the re-developed Mill Arts & Events Centre and Freight House could be included within this contract with the options being –

- ☐ An inclusive contract where the operator would manage the bookings and be incentivised to drive income from the facilities via a revenue share. This approach would also include the staffing to facilitate events. The Council would maintain the facility as part of the wider Freight House development.
- ☐ An operation only option where the contractor uses its own staff to facilitate the events. This may be cheaper than the Council employing staff directly as the operator may be able to benefit from economies of scale generated from operating the wider leisure portfolio

APPENDIX A – QUALITATIVE SCORING – LONG LIST

19 & 57 South Street		
Option	Narrative	Proposed to short list?
Re-develop the site for residential development or alternative use (e.g. office)	The site is surplus and the re-development has the potential to generate capital and could have wider economic benefits	Yes
Retain the site	Rejected as not currently used by the Council	No
Convert and retain for Council use	Rejected as site is not enough to meet any corporate objectives of scale	No

3-15 South Street		
Option	Narrative	Proceed to shortlist
Do Minimum - Continue to operate the building	Yes this should always be included as a base option	Yes
Re-develop the site for residential development or alternative use (e.g. office)	The site is surplus and the re-development has the potential to generate capital and could have wider economic benefits	Yes
Re-develop as new Council main office and chamber	Rejected as the site is not large enough to accommodate both a Chamber and Council office and a decant would be required into temporary accommodation before the Council could move back into the facility	No
Develop new Council accommodate on an alternative site	The Council does not have an alternative site and would have to purchase a site on the open market. This is not within the Council's control and Council has a policy of making use of existing assets	No

The Civic Suite		
Option	Narrative	Proposed to Short List?
Do Minimum - Continue to operate the building	Yes this should always be included as a base option	Yes
Re-develop the site for residential development or alternative use (e.g. office)	The site is surplus and the re-development has the potential to generate capital and could have wider economic benefits. Should be considered but only if an alternative site is available for a Council main office.	Yes
Re-develop as new Council main office and chamber	Rejected as the site is not large enough to accommodate both a Chamber and Council office. The site also has limitations due to the neighbouring property not owned by the Council. An extension of the existing property would not be possible without securing the	No
Develop new Council accommodate on an alternative site	The Council does not have an alternative site and would have to purchase a site on the open market. This is not within the Council's control and Council has a policy of making use of existing assets	No

The Freight House		
Option	Narrative	Proceed to short list?
Do Minimum - Continue to operate the building	Yes this should always be included as a base option	Yes
Re-develop the site for residential development or alternative use (e.g. office)	The site is surplus and the re-development has the potential to generate capital and could have wider economic benefits. Should be considered but only if an alternative site is available for a Council main office.	Yes
Re-develop as new Council main office and chamber	Yes the site has the potential to be re-developed for this use. The approach would comply with a number of the Council's corporate objectives	Yes

The Mill Arts and Events Centre		
Option	Narrative	Proposed to show list?
Do Minimum - Continue to operate the building	Yes this should always be included as a base option	Yes
Re-develop the site for residential development or alternative use (e.g. office) - With no Council or community element	The site is surplus and the re-development has the potential to generate capital and could have wider economic benefits. Should be considered but only if an alternative site is available for a Council main office.	Yes
Re-develop the site for residential development or alternative use (e.g. office) - With an appropriate Council or community element	The site is surplus and the re-development has the potential to generate capital and could have wider economic benefits. Should be considered but only if an alternative site is available for a Council main office.	Yes
Re-develop the site for residential development or alternative use (e.g. office) - With a large Council or community element, similar to the current operation	The site is surplus and the re-development has the potential to generate capital and could have wider economic benefits. Should be considered but only if an alternative site is available for a Council main office.	Yes
Re-develop as new Council main office and chamber	Yes the site has the potential to be re-developed for this use. The approach would comply with a number of the Council's corporate objectives	Yes

APPENDIX B – QUALITATIVE SCORING – SHORT LIST SCORING

EXEMPT

SOUTH STREET

1 2 3

	1	2	3
	Re-develop the site to provide a new Council main office (Chamber inclusion unlikely)	Re-develop the site for residential development or alternative use and re-provide Council office need on another sites	
1 Potential to bring wider economic benefit to the district	None 1	Yes some improvement 2	Yes if a re-development occurred on another site 4
2 Potential to introduce agile working for the Council	Minimal further improvements could be made 2	The option could allow agile working 4	Yes 4
3 Provides a long term future proof solution to meet the Council's needs	Not future proof 1	OK for Council accommodation but limited for Chamber 3	Yes and could also include a chamber on a new site 5
4 Has synergies with wider Council property portfolio	None 1	None 1	Yes as it brings wider sites into consideration 4
5 Generation of third party income or revenue savings	Minimal scope for further savings 2	Yes 4	Yes 4
6 Generation of capital receipts	None 1	None 1	Yes site would be re-developed to generate capital 4
7 The option is within the Council's control	Yes, this is within the Council's control 4	Yes but the Council would need to decant for the duration of the development 2	Yes if the new development is undertaken on a site already owned by the Council 4
8 Potential to bring community uses of the right size and offer	None beyond current offer 1	Unlikely due to space limitations 2	Limited scope to be included within development 1
Score	13	19	30

THE MILL

	1	2	3	4	5
	Develop the site to retain a significant proportion of the ground floor for Council and Community uses	Develop the site to retain a significant proportion of the ground floor for Council and Community uses	Develop the site to retain a significant proportion of the ground floor for Council and Community uses	Re-develop the site but retain no Council or Community use	Re-develop the site to provide a new Council HQ and Chamber
1 Potential to bring wider economic benefit to the district	Limited further economic benefit	Yes the new development would bring benefits to Rayleigh	Yes the new development would bring benefits to Rayleigh	Yes the new development would bring benefits to Rayleigh	Yes but the impact from taking staff out of Rochford would impact the Rochford district
2 Potential to introduce agile working for the Council	No impact	Some potential linked to touch down space option but not if retained space is too high	Yes an approach with a minimal amount of space would reflect agile working	None. The asset and presence in Rayleigh would be lost	1 Yes
3 Provides a long term future proof solution to meet the Council's needs	Limited and would require some degree of improvement to facility	Yes but additional space may be prohibitive	Yes with a small amount of retained space still provides access to Council services	3 No as presence in Rayleigh is lost	1 Yes
4 Has synergies with wider Council property portfolio	None	Yes and could release closure of Civic with new touch down approach	Yes and could release closure of Civic with new touch down approach	Would free up capital for investment into wider estate but Rayleigh presence lost	Yes as it could bring together the chamber and council office requirement but provides no solution the the freight and the need to retain a presence in Rochford
5 Generation of third party income or revenue savings	None and PFI liability will revert back to the Council	Yes but a significant amount of space may not maximise revenue savings	Yes and would be maximised if a small amount of space was retained	3 No ongoing revenue spend	Yes savings would be generated but a solution is required for Freight House
6 Generation of capital receipts	None	Yes but receipt impacted if retained element is high	3 Yes	3 Maximisation of receipt option	4 None
7 The option is within the Council's control	Yes	4 Yes	4 Yes	4 Yes	Yes and the Council could decant directly in from South Street and the Civic Suite
8 Potential to bring community uses of the right size and offer	Current offer exists but space under-utilised	Yes this would introduce new space but a large space may offer like for like which would not be appropriate	Yes and could also limit costs if the Council retain a small portion of the space	4 None	Could offer the potential for some community use
Score	14	25	28	21	25

FREIGHT

1 2 3

	1 Document	2 Re-develop the site for residential development or alternative use (e.g. office)	3 Re-develop the site to provide a new Council main office and Chamber
1 Potential to bring wider economic benefit to the district	Limited 2	Yes a new development on the site could bring wider benefits 3	Yes and could have an economic impact on the centre of Rochford 4
2 Potential to introduce agile working for the Council	None 1	No, opportunity lost to vacate South Street and utilise this site 1	Yes 4
3 Provides a long term future proof solution to meet the Council's needs	Limited if utilised on the current basis 2	None 2	Yes 4
4 Has synergies with wider Council property portfolio	None if not re-developed 1	Some benefit from the capital receipt being used 1	Yes as it could bring together the chamber and council office and also free up South Street, Civic Suite. 5
5 Generation of third party income or revenue savings	No impact on ongoing revenue 1	Yes ongoing revenue costs are reduced 1	Yes revenue savings could be generated from Freight, South Street and Civic 4
6 Generation of capital receipts	None if retained 1	Yes 1	None 1
7 The option is within the Council's control	Yes within Council control after the PFI expires 4	Yes 4	Yes and the Council could decant directly in from South Street and the Civic Suite 4
8 Potential to bring community uses of the right size and offer	Current offer exists but space under-utilised 2	None if disposed 2	Yes community space could be included 3
Score	14	20	29

CIVIC SUITE

1 2

	1	2
	Do minimum	Re-develop the site for residential development or alternative use (e.g. office)
1 Potential to bring wider economic benefit to the district	None	1 Yes new development would have benefit 3
2 Potential to introduce agile working for the Council	None	1 Yes as will limit floor space and bring staff into consolidated facility 4
3 Provides a long term future proof solution to meet the Council's needs	None	1 Yes and could also bring the Chamber together into Council facility 4
4 Has synergies with wider Council property portfolio	None	1 Yes if brought together with the development of a new facility 4
5 Generation of third party income or revenue savings	None	1 Yes as will avoid backlog and ongoing costs 4
6 Generation of capital receipts	None if retained	1 Yes 4
7 The option is within the Council's control	Yes	4 Yes but the Council would need to find a solution for the replacement of the Chamber 3
8 Potential to bring community uses of the right size and offer	None	1 None once disposed of 1
		11 27

Score

	Highest Scoring Alternative Option
South Street	Re-develop the site for residential development or alternative use and re-provide Council office space on an alternative site
The Mill	Re-develop the site but retain a suitable proportion of the ground floor for Council and Community uses.
Freight	Re-develop the site to provide a new Council main office, Chamber and Community space
Civic	Re-develop the site for residential development or alternative use and re-provide Council office space on an alternative site

	Do minimum	Re-develop the site to provide a new Council main office, Chamber and Community space	Re-develop the site for residential development or alternative use and re-provide Council office space on an alternative	Re-develop the site but retain a significant proportion of the ground floor for Council and Community uses	Re-develop the site but retain a suitable proportion of the ground floor for Council and Community uses
South Street	13	19	30		
The Mill	14	25	21	25	28
Freight	14	29	20		
Civic	11		27		

6.91

EX-100

	Do minimum	Consolidate at the Freight House (Refurb)	Consolidate at the Freight House (New Build)	Consolidate at the Mill
B-15 South Street	13	30	30	30
The Mill Arts and Events Centre	14	28	28	25
The Freight House	14	29	29	14
The Civic Suite	11	27	27	27
	52	114	114	96

EXAMPLE

APPENDIX C – OPTIMISM BIAS

EXEMPT

Optimism Bias

Building Type -

Standard Buildings

Work Duration		Capital Expenditure	
Upper	Lower	Upper	Lower
4%	1%	26%	2%

Treasury Guidance

Work Duration		Capital Expenditure	
Weighting	Mitigation Factor	Revised Bias	Weighting
1.0	50%	0.02%	2
3.0	75%	0.03%	9
4.0	66%	0.05%	28
3.0	33%	0.08%	1
1.0	50%	0.02%	4
	25%	0.00%	25%
31.0	66%	0.42%	34
8.0	50%	0.16%	25%
8.0	50%	0.16%	25%
6.0	50%	0.12%	1
	25%	0.00%	2
8.0	25%	0.24%	2
5.0	50%	0.10%	2
9.0	75%	0.09%	25%
	50%	0.00%	25%
9.0	75%	0.09%	11
	25%	0.00%	3
	25%	0.00%	25%
100.0		1.64%	100.0
			11.35%

Mitigation Rationale

0.02%	Some mitigation as partner approach may be used rather than standard.
0.15%	Partner will control design so large mitigation
1.13%	To be tested in procurement so 66% reduction. Should not be complex
3.53%	66% reduction as the approach will be set out in procurement and agreed with Council. Not a D&B contract
0.28%	Some complexity with conversion
0.50%	Standard design and limited innovation
0.00%	
3.20%	Developed by professional team, designs and related costs have not been undertaken at this stage however.
0.16%	Political approval could be delayed, mitigated with Member workshops
0.16%	Funding needs to be established
0.24%	Professional team to be in place to assist the Council in procurement. Partner tested in procurement
0.36%	Further design work required
0.60%	Potential impact from re-development of public buildings
0.34%	Sites are not complex
0.09%	Standard planning required
0.00%	
1.98%	Limited impact from regulation
0.27%	
0.00%	
0.00%	
13.00%	TOTAL TO BE APPLIED TO ECONOMIC ANALYSIS

APPENDIX D – RISK ASSESSMENT

EXEMPT

Item	Category	Issue	Impact	Response	Timeline	Cost	Benefit	Value
1	Political	Members do not approve the business case	Project delay or project aborted	Member workshops to explain process and regular member updates. Events held to date have secured member support	10.10.18		15 months inflation on cost @ 5%	150,000
2	Political	Members unwilling to vacate the existing Civic Suite, preferring to retain the existing facility	Project delay or project aborted	Member support to date has indicated a preference for a new facility	16.10.18		6 months inflation on cost @ 5%	150,000
3	Political	Public support to the proposals cannot be secured, impacting member support	Project delay or increase in capital cost due to additional provision of public facilities	Members have indicated into the public element of the proposals to date. The plans will also be subject to public consultation at a later date (post procurement)	10.10.18		12 months inflation on cost @ 10%	500,000
4	Development	Planning permission cannot be secured for the proposed buildings or the plans for the sites to be re-developed	Re-work of plans leading to additional cost and project delays on the new build sites. Unsuccessful planning applications on the re-developed sites could impact land receipts	Close working with the Planning Authority throughout the project to test proposals and secure support to the plans	10.10.18			
5	Development	Development costs are higher than the current assumptions	Benchmarking of costs based on the design work completed to date.	Risk can be mitigated with additional design work but this could be absorbed at this OBC stage. The procurement of a development partner will progress the development of detailed designs and costs will be fixed up at that stage.	10.10.18		17 months inflation on cost @ 10%	300,000
6	Procurement	The procurement fails to secure a development partner	Aborted project or delays to re-run the procurement process	Mitigated through soft market testing and robust drafting of procurement documents through the support of the professional team.	10.10.18		Aborted revenue costs @ £300,000	300,000
7	Procurement	Delays in procurement process due to quality of documentation or delays in decision making	Additional cost incurred by the Council to run the process	Mitigated through the development of a project team with clear reporting lines to Council Investment Board for key decision making	10.10.18		Additional revenue cost of £100,000	100,000
8	Development	The Council's requirements for a Chamber cannot be accommodated within the Freight House building	Additional development costs and the possibility that a "new build" option for a Chamber has to be pursued.	The initial design work will include a spatial estimate and form an early view of whether the space needed can be accommodated. A greater degree of design work will be required to ascertain if the proposed design meets the Council's required. This will be developed with the Development Partner.	10.10.18		Capital cost increase of 50%	900,000
9	Operational	The Council is unable to manage the new community facilities	Additional revenue costs for the Council	The development of community facilities that are of an appropriate size for the Council and target events that can be catered for by the Council team. An analysis of current use and the local market is being undertaken.	10.10.18		Revenue impact of £50,000	50,000
10	Operational	Unable to secure the early termination of Freight House to commence development works (potentially 1-3 year early termination)	Additional development costs and impact on decant programme		10.10.18			
11	Demand	Demand for the community facilities is lower than anticipated	Reputational risk and some loss of revenue income	The new space would be developed as part of a community consultation process.	10.10.18		12 months inflation on cost @ 10%	300,000
12	Demand	Demand for revenue generating business uses is lower than anticipated for the new Council Civic Suite	Lost revenue income for the Council	The business case should not rely heavily on the generation of third party income. The facility will be marketed within the local business community as part of the operational plan for the new facilities. Early dialogue with the owner of the building to ascertain if the development will be for the whole site or part of the site. This discussion then influences the procurement and the re-development of the site by the Development Partner.	10.10.18		Lost revenue of £25,000	25,000
13	Development	The re-development of the Civic Suite is impacted by the neighbouring commercial property	Reduced capital receipts or a delayed capital receipt for the Council		10.10.18		12 months inflation on cost @ 10%	300,000
14	Operational	The new Council office accommodation does not meet the Council's needs	Impacts the Council's aspiration for agile working	Workplace strategy is being developed and this will influence the design work.	10.10.18		Revenue impact linked to inefficiency of £100,000 per annum	100,000
15	Operational	The Council are unable to decant from South Street and the Civic Suite in an effective way	Potential to impact delivery of front line and democratic services, leading to reputational risk and additional revenue costs	Phasing plan will be included within the OBC and this plan will be refined as part of the procurement process. The Development Partner will be providing their own view of the plan and "signing up" to deliver an efficient decant	10.10.18		One off revenue impact of £100,000	100,000
								5,000
								329,500

APPENDIX E - CAPITAL COSTS

	2 - Consolidate at Freight (Refurb)			3 - Consolidate at The Mill		
	Number	Rate	(£)	Number	Rate	(£)
New Build	991	1,696	1,680,315	1,909	1,916	3,657,644
Demo		-	24,875			-
Refurb	918	-	493,571			-
External Works		-	65,000			-
FFE - Chamber		-	128,000			128,000
FFE - Office	107	1,500	160,500	107	1,500	160,500
			<u>2,532,261</u>			<u>3,946,144</u>
Prelims	8.0%	204,181		8.0%	315,692	
Profit	6.5%	165,897	<u>370,078</u>	6.5%	256,499	<u>572,191</u>
			<u>2,922,339</u>			<u>4,518,335</u>
Optimism Bias	13.00%	379,904		13.00%	587,384	
Risk			<u>153,347</u>			<u>153,347</u>
TOTAL BUILD COST			<u>3,455,590</u>			<u>5,259,065</u>
TOTAL SPACE			<u>1,909</u>			<u>1,909</u>

APPENDIX F – ASSUMPTIONS

EXEMPT

Asset	Variable		Assumption	Narrative and Source
Freight (New Element)	House Build	per m2	£ 1,696	BCIS new build grade A office rate for the South East (less 13% prelims and overhead included within the rate)
	Prelims	%	8%	Gleeds rate benchmarked to market for duration of build
	Overhead	%	6.50%	Gleeds rate benchmarked to market
	Size	m2	991	Based on spatial analysis (attached separately). Ratio of 7 desks to 10 staff used
Freight (Refurb Element)	Demo	£	24,875	Measured rate for the removal of some internal walls based on plans
	Refurb	£	£493,571	Elemental analysis is provided separately
	External works	£	£65,000	Measured rate for entrance area (see also elemental analysis)
	FFE Chamber	£	£ 128,000	Gleeds rate based on comparable scheme with a high grade IT solution within Chamber
	FFE Office	per workstation	£1,500	Gleeds rate industry benchmark for standard office fit out. Based on 107 desks as per spatial analysis
	Prelims	%	8%	Gleeds rate benchmarked to market for duration of build
	Overhead	%	6.50%	Gleeds rate benchmarked to market
3-15 South Street Appraisal	Unit Number	#	21	Based on appraisal provided by RDC (original work completed by Savills in 2017). In preparing the financial models, we have sought to confirm there have been no material and adverse market movements.
	Average Selling Price	£	£ 207,000	
	Developer Margin	%	20%	Market assumption
Civic Suite	Residual Land Value	£	£849,000	
	Unit Number	#	18	

6.100

Asset	Variable		Assumption	Narrative and Source
	Average Selling Price	£	£ 236,000	Based on appraisal provided by RDC (original work completed by Savills in 2017). In preparing the financial models, we have sought to confirm there have been no material and adverse market movements.
	Developer Margin	%	20%	Market assumption
	Residual Land Value	£	£648,000	
19 South Street	Unit Number	#	8	Reduced to 8 units (larger scheme rejected)
	Average Selling Price	£	£ 200,000	Based on appraisal provided by RDC (original work completed by Savills in 2017). In preparing the financial models, we have sought to confirm there have been no material and adverse market movements.
	Developer Margin	%	15%	Smaller development, lower margin site
	Residual Land Value	£	£158,000	Output from revised appraisal using the same base data as in the original appraisal.
57 South Street	Unit Number	#	8	The original appraisal provided by the Council has been reduced from 13 units to 8 due to planning feedback
	Average Selling Price	£	£ 198,000	Based on appraisal provided by RDC (original work completed by Savills in 2017). In preparing the financial models, we have sought to confirm there have been no material and adverse market movements.
	Developer Margin	%	20%	Standard for scheme with no affordable housing
	Residual Land Value	£	£119,000	Output from revised appraisal using the same base data as in the original appraisal.
The Mill Arts and Events Centre	Unit Number	#	22	8 x 1 bed affordable, 2 x 1 bed market sale, 12 x 2 bed units
	Average Selling Price	£	£ 271,000	£247,000 (1 bed), £324,000 (2 bed) based on £4,500 per sq m as advised by Pygott and Crone (agent)
	Average Selling Price - Affordable	£		80% of market sale rate
	Developer Margin	%	20%	

Asset	Variable		Assumption	Narrative and Source
Commercial Space	m2		615	As per drawn plan. To be divided into a number of units based on market demand
Commercial Rent	£ per sq ft		£16	Provided by Pygott and Crone. Rate could be between £16-£18, lower rate used
Commercial Yield	%		8%	Provided by Pygott and Crone. Based on good quality tenants.
Community Space	m2		100	Based on discussions with RDC
RRAVs, CA, OACS Space and Council	m2		125	Based on discussions with RDC
Residual Land Value	£		£ 1,058,756	
Backlog Maintenance				
3-15 South Street	£		£ 354,000	Provided by RDC, benchmarked by Gleeds and assessed as "low" compared to industry.
Civic Suite	£		£ 303,000	Provided by RDC, benchmarked by Gleeds and assessed as "low" compared to industry.
The Mill Arts and Events Centre	£		£ 47,756	Provided by RDC, benchmarked by Gleeds and assessed as "low" compared to industry.
The Freight House	£		£ 81,391	Provided by RDC, benchmarked by Gleeds and assessed as "low" compared to industry.
Investment Rate	Years		5	Assumption is that the backlog investment is made over a period of 5 years
Annual Costs				
Running	£ annum	per	£ 126,500	Provided by RDC. Current annual cost within accounts
3-15 South Street	£ annum			
Civic Suite	£ annum	per	£ 53,000	Provided by RDC. Current annual cost within accounts
The Mill Arts and Events Centre	£ annum	per	£	
The Freight House	£ annum	per	£	

Asset	Variable		Assumption	Variance and Source
Future Running Costs				
	£ per m2		£123.70 ¹²	Benchmark provided by Gleeds. Higher than current running cost per sq m, reflecting approach of managing and maintaining new office development
Financing Assumptions	NPV	%	3.50%	HM Treasury standard rate
	Inflation	%	0%	HM Treasury assumption for business cases
	Term of appraisal	Years	30	In line with HM Treasury guidance - long term reflecting asset life
	Borrowing Term	Years	30	In line with appraisal term
	Borrowing Rate	Rate	2.90%	PWLB rate @ 19th November 2019
Operating Income - Freight House				
	Full Day - midweek	Days per month	2	Small number of bookings assumed per month for both mid-week and weekend
	Full Day - weekend	£ per booking	2	
	Day Rate	£ per booking	£225	In line with current day rate.
	Hourly booking per month	Hours per month	30	Ad hoc hourly bookings
	Rate per hour	£ per booking	£25	
	Total Annual Income	£ per annum	£19,800	Modest amount of annual income

¹² "An all in FM rate has been used to forecast the future operating costs of the new estate at a rate of £123.70 per m2. This rate includes cleaning costs. The costs shown for the Council's current operating costs exclude cleaning costs of the existing premises".

Asset	Variable	Days per month	per 2	Assumption	Narrative and Source
Operating Income - The Mill	Full Day - midweek	Days per month	2		Small number of bookings assumed per month for both mid-week and weekend
	Full Day - weekend	£ per booking	2		
	Day Rate	£ per booking	£100		Lower rate that the Freight House based on smaller facility
	Hourly booking per month	Hours per month	30		
	Rate per hour	£ per booking	£15		Lower rate that the Freight House based on smaller facility
	Total Annual Income	£ annum	£10,200		Modest amount of annual income
Caretaking Costs	FTE	#	1		Based on operating discussion with RDC
	Cost per FTE	£ annum	£ 24,123		Provided by RDC based on existing grade plus 29% on costs

APPENDIX G - SPATIAL ESTIMATE

Workplace Consulting - Space Calculator

Project Title: Rochford District Council

Project Headcount: 152

Assumed agile ratio - desks per 10 people: 7

Project Inputs

gleeds®

Space Calculations			Office Requirements		
Work Style	Work Setting	Space Type	Nr. of Settings	Nr. of Seats	Total Space Required (M2)
Focus	Workstation	Private	107	107	542
	Focus Pod	Private	2	4	8
	Touchdown	Private	1	6	3
	Cellular Office	Private	0	0	0
Collaborate	Meeting Pod	Private	2	8	16
	Open Meeting Area	Private	4	16	24
	Meeting room - Small	Privileged	2	12	20
	Reception	Public	0	0	0
Learn	Visual Management Area	Private	5	-	5
	Meeting room - Large	Privileged	0	0	0
Socialise	Break Out	Private	2	8	8
	Kitchen/Tea Point	Privileged	2	15	38
	Meet and Eat Hub area	Privileged	2	30	49
	Support Hubs	Private	4	-	16
Total m2			826		
20% space allocated to workstations			78		
20% alternative work settings			22		
Circular office space (m2/20%)			165		
Net Internal Area m2			992		

Total MIA (M2) 992

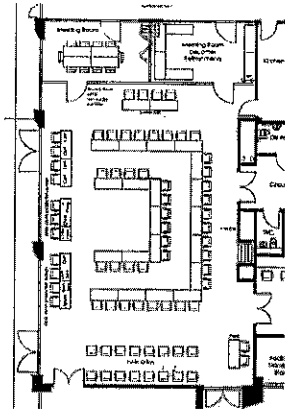
M2 per Workstation 3.27

M2 per Person 6.52

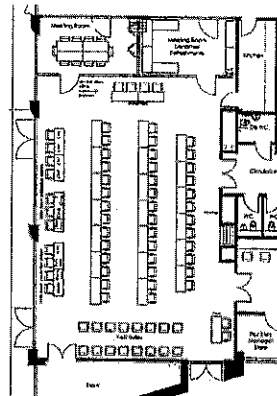
Traditional Workstations (Nr.)	107
Agile Headcount (Nr.)	152
Alternative settings (Nr.)	17
Alternative seats (Nr.)	99
Total seats provided (Nr.)	206
Agile lockers (400 x 400mm)	152
Storage (m)	152

APPENDIX H – CHAMBER LAYOUTS

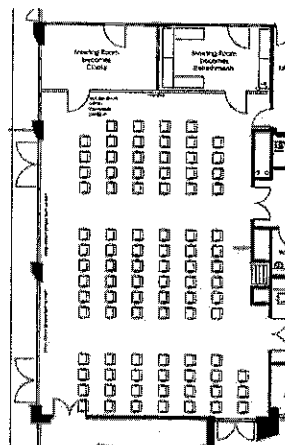
- Full Council – Horseshoe (73 Delegates)



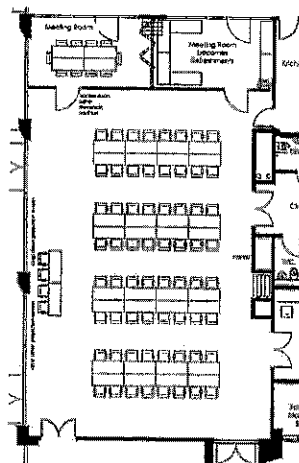
- Full Council – Classroom (73 Delegates)



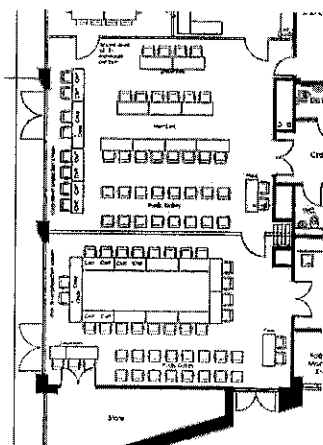
- Auditorium (91 Delegates)



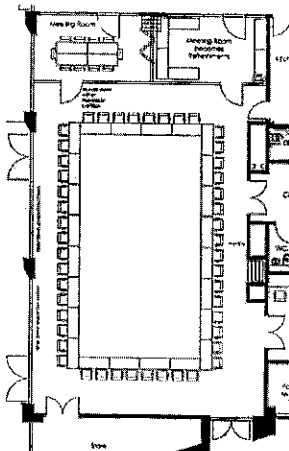
- Banquet (68 Delegates)



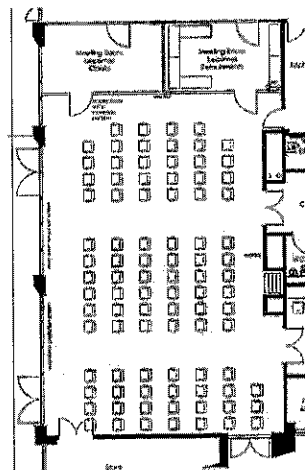
- Dual Use (87 Delegates – 44/43 split)



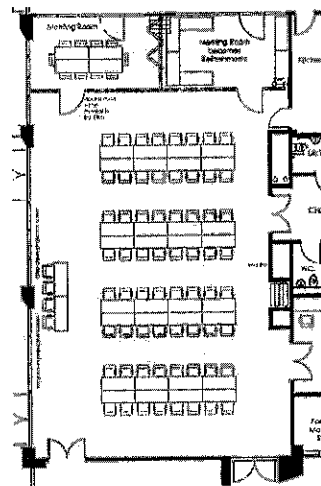
- Conference (48 Delegates)



- Auditorium (91 Delegates)



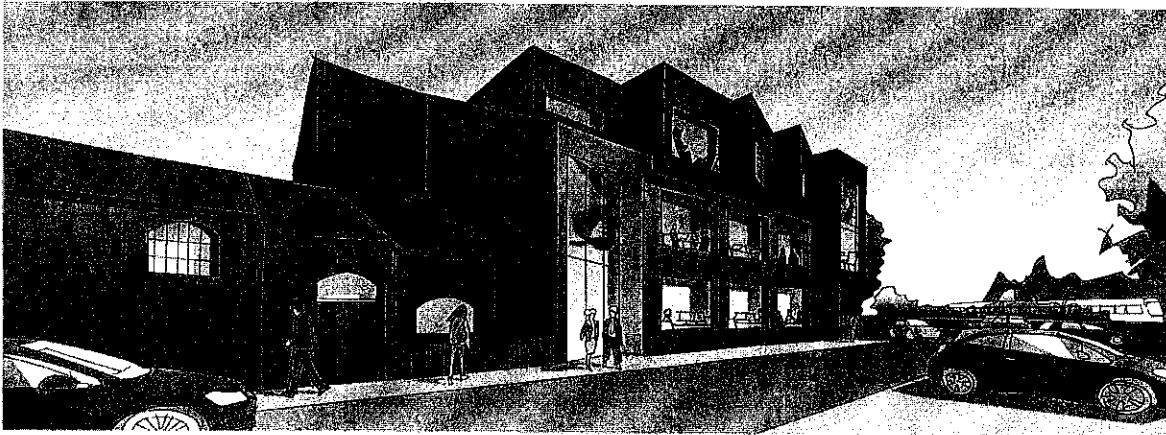
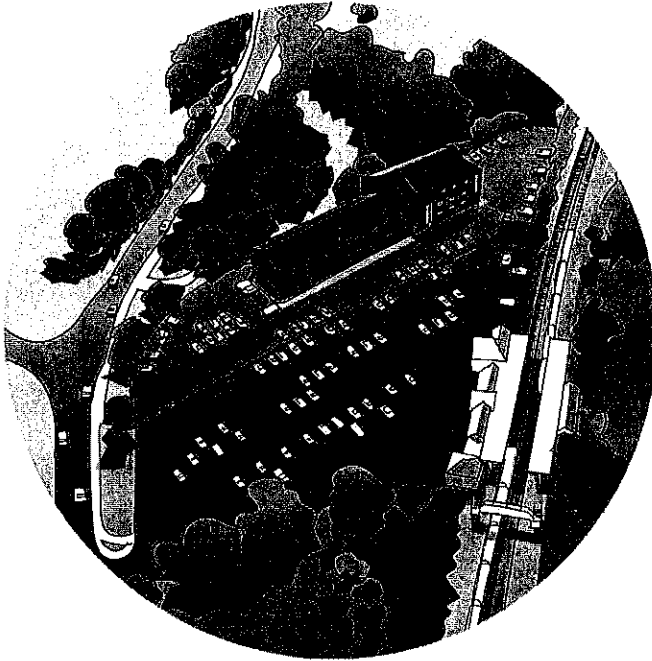
- Banquet (68 Delegates)



EXEMPT

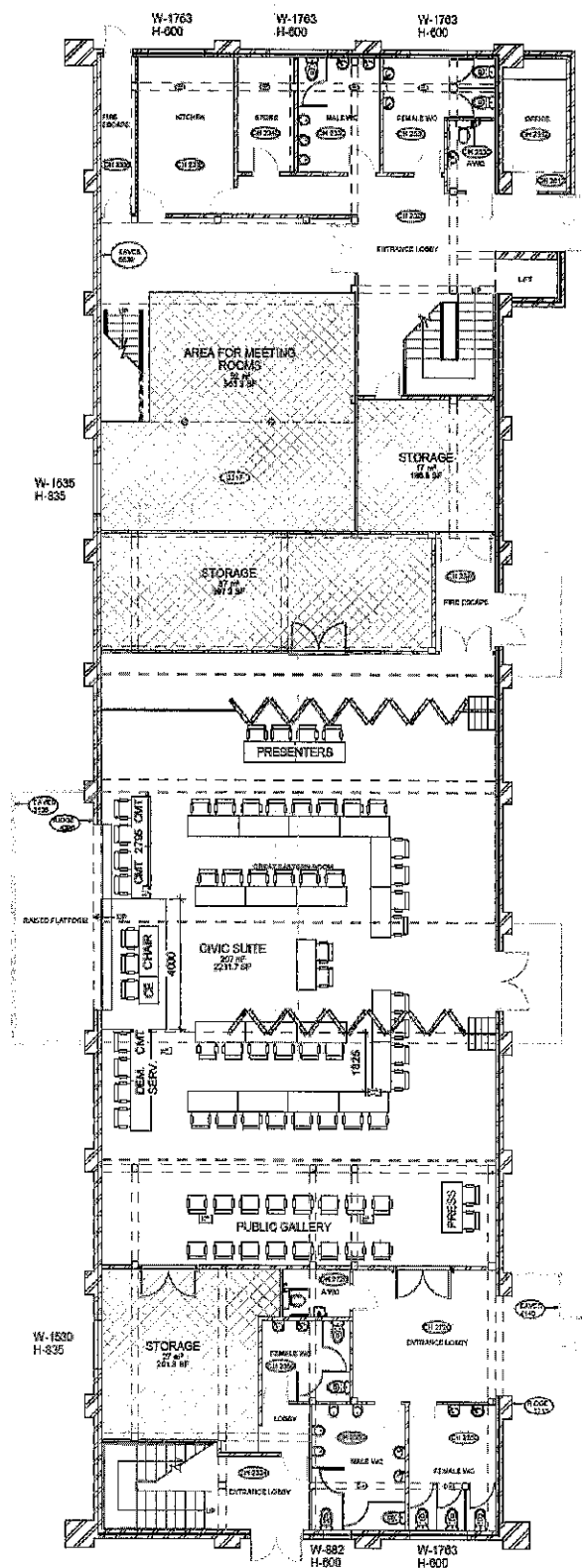
APPENDIX J – INDICATIVE DESIGNS

The Freight House



The Freight House – Indicative Layout

EXEMPT



2 Proposed Ground Floor
1:100

The Mill Arts and Events Centre indicative design.

