

CABINET	AGENDA ITEM No. 5
26 FEBRUARY 2018	PUBLIC REPORT

Report of:	Interim Corporate Director of Resources Corporate Director of Growth and Regeneration	
Cabinet Member(s) responsible:	Cabinet Member for Resources	
Contact Officer(s):	Peter Carpenter, Service Director Financial Services	Tel: 01733 384564

FLETTON QUAYS AND OFFICE CONSOLIDATION PROJECT

R E C O M M E N D A T I O N S	
FROM: Cabinet Member for Resources	Deadline date: Cabinet 7 March 2018
<p>It is recommended that Cabinet:</p> <ol style="list-style-type: none"> 1. Note the significant progress and benefits which the Fletton Quays development has brought to the city since the plan was approved by Cabinet in February 2014, including additional financial benefits from grant funding an additional capital receipts. 2. Recommend that Council approves additional capital investment of £2,636,025 (including a contingency of £500,000), to ensure council office buildings, including Sand Martin House, are able to meet the new and emerging needs of the council and provide opportunities for other organisations to lease parts of the office building to provide the council with additional income streams. It also facilitates the conversion and refurbishments of Bayard Place reception to provide an improved customer experience. 	

1. ORIGIN OF REPORT

- 1.1 This report is submitted to Cabinet following a referral from CMT on 31 January 2018.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is to:

- a. Provide an update to Cabinet on the progress of the Fletton Quays development and the council's office consolidation project and notes gains in revenue income and capital receipts.
- b. Set out the revised costs (capital and revenue) for the office consolidation project and seek approval to put the report to full Council to approve additional capital investment,

- 2.2 This report is for Cabinet to consider under its Terms of Reference No. 3.2.7, *'To be responsible for the Council's overall budget and determine action required to ensure that the overall budget remains within the total cash limit'*.

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	YES	If Yes, date for relevant Cabinet Meeting	26 February 2018
Date for relevant Council meeting	7 March 2018	Date for submission to Government Dept	N/A

4. BACKGROUND

- 4.1 The Fletton Quays project was approved in February 2014 through a report entitled “Funding Peterborough’s Future Growth.” This report approved the establishment of a new joint venture, part of whose aim was to bring forward a comprehensive development of the Fletton Quays site, using the council’s desire to consolidate its office accommodation in a new office building as a way to kick start the development of a derelict site that has not come forward for development for over 40 years.
- 4.2 In March 2016, Cabinet approved a report entitled “Council Office Consolidation” confirming the office move to Fletton Quays, whilst retaining the civic core of the Town Hall for the council’s own democratic use, and agreeing the principle of letting current office buildings and space. Authority was delegated to the Corporate Director for Resources to conclude and sign an agreement for lease and a lease for the new office development and associated car parking on Fletton Quays, in conjunction with the Director of Governance. This was subsequently agreed in March 2016.
- 4.3 In December 2016, outline planning consent was secured for a mixed use scheme designed to deliver:
- A hotel
 - 280 apartments overlooking the Embankment and Cathedral
 - A mix of retail and leisure uses along the river frontage
 - Two new office developments totalling 166,000 square feet
 - Multi-storey and surface car parks
- 4.4 The office development was to provide Peterborough City Council and its partners’ office accommodation for its city based staff and to address a number of issues:
- Staff were working from a number of locations including Bayard Place, The Town Hall and Manor Drive. This was inefficient, leading to poor communication and costing money in staff time travelling between the different bases.
 - Some of the current office accommodation would have needed modernising, ICT upgrades and development in the foreseeable future.
 - Current office accommodation was not suitable for the modern and more efficient working practices of agile working.
 - Agile working allows staff to work and remain in appropriate contact with colleagues when they may have otherwise been prevented from doing so; due to poor weather conditions, injury, the need to provide child care etc.
 - In order to meet future budget pressures it was essential that the most efficient ways of working were achievable through the provision of modern and suitable office accommodation.

5. PROGRESS ON FLETTON QUAYS AND OTHER DEVELOPMENTS

Housing

- 5.1 Much needed housing is currently under construction and 358 apartments from the original 280 anticipated are now being built on Fletton Quays by Weston Homes. These have recently been launched for sale and sales are ahead of projection.

Hotel on Fletton Quays

- 5.2 Construction will commence shortly on the four star, 160 bedroom internationally branded Hilton Garden Inn Hotel, which has a roof top bar and restaurant.

Distillery and Visitor Centre

- 5.3 The Grade II Listed Goods Shed will be converted and extended to create a gin and whisky distillery with visitor centre, including tours and virtual reality experience. There will also be a restaurant and opportunities to sample the products. The addition of this attraction will make Fletton Quays a key tourist destination

Whitworth Mill

- 5.4 Since the original Cabinet decision, the council has also acquired the Whitworth Mill site from Milton Estates and is supporting its conversion to a creative and digital arts centre to be operated by Metal. This will make a significant contribution to the city's arts and cultural offer. Phase one enabling works will start in April 2018 and a regional grant of almost £500,000 has been secured from Arts Council England, with a bid to the national grant scheme and LEP/Combined Authority being submitted shortly.

Riverside Residential Development

- 5.5 Surplus land associated with the mill, previously the site of recently demolished silos, will be disposed of for further riverside residential development (up to 30 units) by the council creating a windfall capital receipt. The mill's conversion will also allow the council to dispose of Chauffeur's Cottage, the building currently used by Metal, to generate a further windfall capital receipt.

Sand Martin House

- 5.6 Sand Martin House, the name of the council's new offices on Fletton Quays, is now firmly taking shape. The building includes the full refurbishment and re-use of the Grade II Listed engine shed together with a significant element of new build. The main structure is in place and the contractor is on schedule for practical completion in May 2018. These physical works are progressing hand-in-hand with the council's own preparations to move in, which will involve moving to a new agile way of working with fundamentally different working practices and ICT requirements from the past.

Fletton Quays Car Park

- 5.7 Two new car parks, a 418 space multi-storey and 97 space surface car park are to be provided at Fletton Quays and will be completed in 2018. These will be operated by the council.

Town Hall

- 5.8 The council has secured a lease for the section known as Town Hall South with the Department for Work and Pensions (DWP). This not only secured an income stream for the council, but also ensured that the DWP stays within the city centre and continues to be accessible to residents and customers.
- 5.9 The refurbishment of this section of the Town Hall is well underway, and DWP are expected to take occupation in mid-2018. This has been secured ahead of the Fletton Quays move delivering both early rental income and a saving in management and utility costs for the council. There have been a number of additional costs associated with the Town Hall south refurbishment and letting as well as an increase in the rental income stream.

- 5.10 The council is in advanced negotiations with a potential public sector tenant for a lease on the Town Hall north wing, demonstrating further demand for office space in the city centre. Any additional capital expenditure associated with fit out costs for that tenant would need to be met by an increase in rental income.

Bayard Place

- 5.11 The original office accommodation Cabinet report assumed a capital fit out cost and rental income stream for the refurbishment and letting of Bayard Place as office accommodation at a yearly rental of £540k. Over several months the council has promoted the use of the site as interim teaching accommodation for the new Peterborough University to the HE Steering Group and Combined Authority, but this has not progressed. The decision to move offices to Fletton Quays has created the ability to either rent or sell Bayard Place. The original Cabinet report assumed that the council would be renting out Bayard Place with an associated income of £540k contributing to the overall revenue business case.
- 5.12 However given the recent and significant temporary accommodate pressure, the council now has the opportunity to potentially sell the building to its housing joint venture company. A capital receipt reflecting use as affordable rather than market housing can potentially be achieved. This will be funded from right to buy receipts/s106 grant funding and will provide around 70 self-contained flats
- 5.13 The council will retain the ground floor for 2 to 3 years at a peppercorn rent and continue to use this as the Customer Contact Centre, offering an improved customer experience. The refit costs are estimated to be in the region of £150,000 for the ground floor. This action will mean that rather than the council obtaining rental income of £540k from Bayard Place, it would be available to offset cost pressure for temporary accommodation going forward by approximately £800,000 per year, and in addition the Council will obtain a capital receipt and will still own 50% of the building through the joint venture company.

Manor Drive

- 5.14 The original lease to the Council terminated in December 2017. The Council has agreed a short term extension to the current lease of Manor Drive and sublease to Serco with a view to these agreements being terminated later in the year as soon as we are ready to move to Sand Martin House. As such there will be no ongoing liability for Manor Drive following the move to Sand Martin House

6. FINANCIAL UPDATE

Increase in Cash Receipts

- 6.1 The original Fletton Quays income assumptions have been exceeded with a greater dividend from the Peterborough Investment Partnership (PIP) together with contributions from PIP to highway improvements and staff costs. In total some £8,183,000 of additional benefits from capital receipts, grant funding and additional funds from the Fletton Quays development from the joint venture company since this project began are forecast as follows:

Mill Conversion (awarded and prospective Grant)	£3,000,000
Capital receipts (surplus Mill land on Fletton Quays Chauffer's Cottage and Bayard Place)	£4,100,000
Additional income from Peterborough Investment Partnership	£1,083,000

Increase in Capital Costs

- 6.2 There is a requirement for an increase in capital investment to complete the Fletton Quays project and relocation of staff to Sand Martin House. This largely relates to ICT. A fundamental review of the council's current ICT needs has been carried out which has given the council an opportunity to model its new agile working style, ICT and workspace strategy. This has also allowed for an opportunity to design an ICT infrastructure that will support parts of the building as being available to sub-let with an increase in desk spaces, generating additional income to help offset costs.
- 6.3 Further investment is therefore needed to ensure that all council buildings including Sand Martin House have proper ICT infrastructure installed to support the new way of working, which are fit for purpose to enable partners to share accommodation and to allow the council to sublet the extra capacity to partners who will be working alongside the council in shared services arrangements. The additional income generated from this subletting can be used to offset the additional investment.
- 6.4 The council has also reviewed its ongoing ICT needs, which would have occurred irrespective of the move to Sand Martin House, and has identified the need for further investment in the council's ICT infrastructure. The benefits of these investments are to ensure that Sand Martin House is "future-proofed", avoiding the need to retrofit the building thereby creating a highly flexible working environment when the time comes to sublet and share with other organisations.
- 6.5 The total additional capital required is £2,636,025 including a contingency of £500,000. Virements of £990,000 have previously been made to the total additional cost of the project (£3,626,025) and therefore approval for an additional £2,636,025 is requested in order to complete the project. The full cost of the project will be shown after approval and the virements reversed.

Capital	Sub Amount	Total
Initial Cabinet Report assumptions	£5,342,000	
Changes in the 2017/18 MTFS	£1,885,000	£7,227,000
Previous CMDN - additional costs for refurbishment of Town Hall south (offset by additional rental income)	£1,182,952	£1,034,374
Overall budgeted total		£8,261,374
Additional costs		
<ul style="list-style-type: none"> ● ICT infrastructure for all council buildings ● Sand Martin House Additional Costs ● Additional Office Move requirement ● Fit out costs for Bayard Place ● Contingency at 5% 	<ul style="list-style-type: none"> £2,387,025 £350,000 £239,000 £150,000 £500,000 	£3,626,025
Total capital requirement		£11,887,399

The revenue position

- 6.6 The revenue position of this project is as set out below but noting as follows:
- A tenant has yet to be secured for the sub-letting space within Sand Martin House (negotiation is ongoing).
 - A review on the car park income forecast is to be undertaken to take account of changes to this project and the effect on parking within other council car parks
 - Budget adjustment from Bayard Place. No longer receiving £540,000 rental income. In the next few years, the temporary accommodation at Bayard Place will replace currently rented units thereby avoiding a potential pressure in our budget of £800,000.
 - The revenue effect of the £3.6million additional capital is £450,000. This £450,000 is calculated as follows: £3.6million x 2.5% interest = £90,000 pa plus £3.6million divided by 10 years = £360,000). The initial capital estimate (£8.3million) has already been accounted for in the 2017/18 MTFS.

Revenue	2018/19	2019/20	2020/21
Sand Martin House revenue costs (Including rental of two car parks)	£2,803,000	£3,609,000	£3,609,000
Existing office accommodation budgets (Excluding car park)	(£1,949,000)	(£1,949,000)	(£1,949,000)
Net increase	£854,000	£1,660,000	£1,660,000
Less Town Hall income (excluding BP)	(£285,000)	(£528,000)	(£528,000)
Less sub-letting space in Sand Martin House	(£262,500)	(£393,750)	(£393,750)
Less additional car park income	(£148,666)	(£337,000)	(£350,000)
Less Bayard Place budget adjustment	(£135,000)	(£405,000)	(£540,000)
Surplus pre capital and one off costs	£22,834	(£3,750)	(£151,750)
Revenue impact of additional capital		£450,000	£450,000
Net adjustment approved in the MTFS	£22,834	£446,250	£298,250
One off costs	£1,211,000	£175,000	

7. CONSULTATION

- 7.1 This report asks for the approval of additional capital expenditure of **£2.6m** (as set out in paragraph 6.5 above) in order to complete the move from Bayard Place, Manor Drive and the Town Hall to Sand Martin House. In addition it sets out work being done to ensure that all revenue costs are fully accounted for and also sets out the wider economic benefits to Peterborough.

The council needs to make immediate payments after this report has been approved by Council which were previously unforeseen in order to avoid additional contractual liabilities for failing to meet build deadlines. The nature of the ICT works are such that they cannot be delayed until a later stage of the build program as they require works to be undertaken to the fabric of the building.

Council will consider the Medium Term Financial Plan at the full Council budget meeting. This report seeks Cabinet approval to the proposal being put forward to full Council to be included in the Medium Term Financial Plan for the year 2017-18.

8. ANTICIPATED OUTCOMES & CONCLUSION

- 8.1 **This is an excellent regeneration project, one of the most significant in Peterborough within the last 50 years. The progress includes:**

- A prestigious hotel chain has been attracted to the city as part of this development
- More homes are being provided. 358 apartments are now being built, which is 78 more than originally envisaged
- We are gaining two car parks, a distillery and a visitor centre
- Whitworth Mill is being developed to provide the city with a creative and digital arts centre, dependent on external funding being secured and applied for
- Capital receipts of £4.1million can be secured
- A further £1.1 million secured from the Peterborough Investment Partnership joint venture company
- An additional £2.6million of capital (in addition to the additional £990,000 virements already made) is required to complete the scheme.

9. IMPLICATIONS

9.1 Legal Implications

There are no legal implications of this report as it is financial in nature.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- [Extraordinary Cabinet 7 March 2016, Agenda Item No. 3, Council Office Consolidation Report](#)

- [Cabinet Member Decision, 9 October 2017 - Award of Contract for the Remodelling of South Side Town Hall – OCT17/CMDN/47](#)

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