



Agenda item: 8

Summary

Report for:	Cabinet
Date of meeting:	24 June 2014
Part:	I
If Part II, reason:	

Title of report:	Civic Centre occupation and disposal and update on financial implications of the Public Service Quarter and Gade Zone Regeneration procurement.
Contact:	Andrew Williams, Leader and Portfolio Holder for Planning and Regeneration Nick Tiley, Portfolio Holder Finance and Resources Author/Responsible Officer: Mark Gaynor
Purpose of report:	The purpose of this report is to review and consider options following the withdrawal of the offer from Morrisons to buy the Civic Centre site, and to make recommendations on: <ul style="list-style-type: none"> • The disposal of the Civic Centre site and the potential of linking with the college land disposal • Making best use of the Civic Centre prior to disposal • Budget requirements for the Public Service Quarter (PSQ) following receipt of tenders.
Recommendations	It is recommended: <ol style="list-style-type: none"> 1. That the Civic Centre site be jointly marketed alongside the College site with the freedom for either party to opt for an individual solution and for this to be on the basis of an open market sale with any decision to be made subject to a future Cabinet report. 2. That the proposed uses and occupation of the Civic Centre, as set out in section 3 of the report, be approved. 3. That Cabinet recommend Council to increase the PSQ budget by £1.75M to take account of the received tender prices, contingency, furnishing, technical support and the impact of continuing build cost inflation. 4. That Cabinet recommend to Council the approval of a £200k budget, to be funded from the PSQ reserve, to facilitate the marketing and disposal of the Civic Centre site and delivery of the Gade Zone Regeneration and associated land disposals.
Corporate objectives:	Dacorum Delivers: Maximising the value of Council Assets and providing Value for Money. The use of the Civic

	<p>Centre will avoid decant costs and consolidation of use of the space will reduce running costs. The PSQ will be a more cost efficient building to operate than the Civic Centre.</p> <p>Regeneration. The Gade Zone Regeneration project is aimed primarily to deliver significant regeneration in the town centre. It facilitates the creation of a new community focused building housing public sector and voluntary sector partners, a new commercial leisure facility developing more family friendly and evening attractions into the town centre and much needed new homes. Subsequent development of the Civic Centre and college sites will bring further new investment into the town centre, most likely for new housing.</p> <p>Affordable Housing. New housing created will include affordable housing at 35%.</p> <p>Safe and Clean Environment. The PSQ will be built to 'BREEAM excellent' standard and the design of all new town centre development will be guided by the Town Centre Masterplan which sets out high sustainability requirements</p>
<p>Implications:</p> <p>'Value For Money Implications'</p>	<p><u>Financial</u></p> <p>The indicative financial implications are set out in the report.</p> <p><u>Value for Money</u></p> <p>The indicative estimates of the likely running costs of the new PSQ for the Council are that a saving of around £300K per annum resulting from a reduction in space and therefore National Non Domestic Rates (NNDR), from lower energy consumption, and from lower ongoing repair and maintenance costs (the Group Manager Commercial Assets and property Development has confirmed that these include expensive replacement of heating and ventilation equipment and capital repairs required in the next five years if the Council continued to occupy the Civic Centre of between £2 – 3M). By moving out of the Civic Centre therefore substantial capital investment that would otherwise have been required is avoided.</p> <p>The Council will ensure that best value is received for the sale by marketing the land on the open market.</p>
<p>Risk Implications</p>	<p>With regard to PSQ and Gade Zone Regeneration a new risk assessment and management plan will be agreed with the successful development partner following selection which will set out key risks and mitigation. A separate internal risk register will be developed alongside this. To date risks have been managed through the projects exiting risk register.</p>
<p>Equalities Implications</p>	<p>The procurement and regeneration is set within the objectives of the Hemel Hempstead Town Centre Masterplan which included an equality impact assessment.</p> <p>The Employers Requirements Document for the PSQ seeks to ensure compliance with the Equalities Act 2010, and has</p>

	<p>incorporated consultation with a range of community and interest groups.</p> <p>The Employer's Requirements Document included two requirements relating to community access. Bidders were asked to suggest ways to use the PSQ to promote good relations between Dacorum's communities and to seek opportunities to promote, as well as provide, equal access for all users of the building. This latter requirement followed good practice seen in the voluntary sector, such as the provision of flexible workspace that can be configured to the needs of any employee as the norm. Residents were consulted via the Disability Partnership and Communities Together networks, and have been invited to remain involved throughout the design process.</p>
<p>Health And Safety Implications</p>	<p>Continued occupation of the Civic Centre will be on the basis that all health and safety requirements for staff, Members and visitors will be fully met.</p> <p>The Pre-Qualification Questionnaire (PQQ) issued at Stage 1 of the procurement process for the Gade Zone Regeneration considered the management arrangements for Health and Safety within each of the bidders' organisations.</p>
<p>Monitoring Officer/S.151 Officer Comments</p>	<p>Deputy Monitoring Officer:</p> <p>The key consideration for the Council in any land disposal is to ensure that it obtains the best consideration reasonably obtainable for the land.</p> <p>This duty, imposed by section 123 of the Local Government Act 1972, will be familiar to Members as it applies to any disposal of land by the Council. Except with the consent of the Secretary of State, a Council shall not dispose of land for a consideration less than the best that can reasonably be obtained.</p> <p>This duty does not impose a requirement on the Council to conduct a particular process (for example by offering the land through auction or public tender). However, a sale on the open market is generally the most appropriate method to ensure that best consideration is achieved and this is what is proposed in this instance.</p> <p>The disposal of the Civic Centre site will not engage the public procurement regulations and the site can be sold on the open market as long as the Council as landowner is not seeking to have any control over the end user or development on the site.</p> <p>The sale of the College site may include requirements to build a new college and therefore the procurement regulations may be engaged. The Council should seek confirmation from the College that the College's proposed development does not engage the public procurement regulations because whilst this risk will sit with the College any delay caused by legal challenge may impact on the sale of the Civic Centre site.</p>

	<p>Deputy S.151 Officer</p> <p>PSQ The additional £1.75m capital requirement for the PSQ can be funded through a combination of the £1.5m budget previously allocated to the Decant project, which will not now be required, and a further £275k to be drawn down from the PSQ reserve.</p> <p>Risks</p> <p>It should be noted that the contract to deliver the PSQ is not a fixed price contract, and that there remains a risk that the Council could face additional unforeseen costs as the project enters the implementation phase. The Council has sought to mitigate these risks through fixing up to 80% of the project costs prior to the commencement of the works, and through budgeting a contingency of 6.7%.</p> <p>Civic Centre land disposal and Gade Zone Regeneration</p> <p>Members should also note that the disposal of the Civic Centre and the associated regeneration projects discussed in this report will incur legal and marketing costs before the receipts can be realised. These costs are currently estimated to be in the region of £200k. This sum could also be funded from the PSQ reserve and drawn down as the costs are incurred.</p> <p>Risks</p> <p>The potential receipts accruing from the disposal of this land cannot be accurately predicted until the marketing exercise has been completed. The Council will need to appoint expertise from the market to ensure that it achieves best consideration for its asset.</p>
<p>Consultees:</p>	<p>Monitoring Officer S 151 Officer James Doe, Assistant Director Planning and Regeneration James Deane, Assistant Director Finance and Resource Ben Hosier, Group Manager Commissioning, Procurement and Compliance Mike Evans, Group Manager Commercial assets and Property Development Mark Brookes, Group Manager, Legal Governance</p>
<p>Background papers:</p>	<p>Part I and II Cabinet Reports 17 September 2013, 24 July 2012, 24 April 2012, 22 January 2012.</p>
<p>Glossary of acronyms and any other abbreviations used in this report:</p>	<p>PSQ: Public Service Quarter PQQ: Pre-Qualification Questionnaire NNDR: National Non Domestic Rates HPHT: Hertfordshire Partnership Health Trust</p>

Background

Civic Centre occupation and disposal and update on financial implications of the Public Service Quarter and Gade Zone Regeneration procurement.

1 Introduction

- 1.1 The decision by Morrisons, on commercial grounds and the impact of the inability to deliver a petrol filling station on site, to withdraw from locating a new store on the West Herts College and Civic Centre site has called for a rethink on the proposed decant from the Civic Centre prior to occupation of the new Public Service Quarter (PSQ).
- 1.2 The decant to 39/41 Marlowes was an absolute early requirement to allow Morrisons to have vacant possession within the timescales of the contractual agreement. It would have incurred considerable costs – estimated at £1.5M – in order to allow for effective occupation for the three years required. This would have been an acceptable investment as part of the overall delivery of the food store and new college campus but is no longer required. The most efficient use of the Civic Centre is to continue to provide accommodation for the Council (and possibly partners – see below) but to begin the process of disposal as soon as practicable.
- 1.3 The ambitions for Town Centre regeneration remain undiminished. Projects already underway include the improvements to the Old Town (now largely complete), Marlowes Shopping Zone and the Bus Station Interchange with the Water Gardens project in the last phase of the Heritage Lottery Fund funding process. The procurement of the PSQ and Gade Zone Regeneration is in its final stages which over the next few years will see the new PSQ (due January 2017) together with Cinema/restaurants on Market Square and complementary regeneration around the new PSQ (predominantly residential). West Herts College ('the College') too is committed to delivering a new modern campus, albeit in a more phased manner than originally planned. The disposal of both the Civic Centre site and the parts of the College site not required for its new facility are key to this overall plan.
- 1.4 The purpose of this report is to review and consider options post-Morrisons looking specifically at:
 - Disposal of the Civic Centre site and the potential of linking with the college land disposal
 - Making best use of the Civic Centre prior to disposal
 - Relationship of the above to the delivery, funding and timelines for the PSQ and associated regeneration.

2 Civic Centre Site disposal

- 2.1 The disposal of the Civic Centre site provides an important part of the overall funding of the new PSQ and thus the need to dispose of the Civic Centre site is very clear. The key issues are:
 - Likely market interest and values
 - Whether to dispose jointly with the College or separately
 - Consideration of preferred uses and degree of control required (including whether to seek an off market sale)

- Timescales

2.2 Likely market interest and values

- 2.2.3 Given the two sites key location and existing planning policy the two interests are likely to be retail and residential.
- 2.2.4 The **retail interest** will be either for a large format store or for a discount supermarket. This would require use of both the Civic Centre site and College site. The appetite for the major supermarkets for large scale stores has diminished significantly and seems an unlikely end result.
- 2.2.5 The alternative retail interest would be from discount supermarkets. The land values for this use are less than for a large format store and are unlikely to match residential at the moment. The land requirement would allow a mixed use scheme with residential.
- 2.2.6 **Residential interest** is currently very strong locally and likely to remain so to the point that the sites will be available (potentially 2015 for the college land and 2017 for the Civic Centre). Strong delivery of new housing in the town centre is a key aim of both the adopted Dacorum Core Strategy 2013 and the Hemel Hempstead Town Centre Masterplan.

2.3 Marketing – jointly with the College or separate?

- 2.3.1 In the interests of both overall regeneration and the long term interests of the Borough the most effective solution would seem to be, in the first instance, marketing the sites jointly (and taking advantage of any ‘marriage value’). This would allow for a more comprehensive use of the site. This can be structured to market the sites both together and as separate sites at the same time to allow flexibility. The College is comfortable to start off on this basis. The current layout and access arrangements of both the Civic Centre and College sites are conducive to their being built out successively.
- 2.3.2 The recommendation is that we agree a joint marketing with the freedom and agreement for either party to opt for an individual solution.

2.4 Preferred uses and degree of control

- 2.4.1 The section above setting out market interest really self selects the uses – retail, residential, or a combination of the two. If the Council wishes to exercise specific control then we can market on the basis of a development brief – which would detail the broad objectives – or a specific requirement – which would require a more complex (and possibly lengthy) OJEU process. These routes would tie both the Council and the College to the solution with no flexibility to vary. Given the need for flexibility and the limited types of uses that are of interest to the market and acceptable in planning terms this is not recommended.

2.4.2 We could market the site with outline planning permission (realistically only for residential as store operators need their own model). Whilst superficially attractive in that it may increase value and certainty it may not meet the requirements of potential developers and purchasers who wish to make their own judgement as to what the market will deliver. This too is not recommended.

2.4.3 The recommended route is to rely on planning policy and the sale would be subject to planning anyway. This is what the market will expect. Planning policy would support residential and supermarket/retail. In advance it is recommended that the council take high level advice from external property specialists

2.5 **Timescales**

2.5.1 The sites can be put on the market relatively quickly – within a month or so of agreeing to move to market. The timetable of vacant possession – Jan 2017 in the case of the Civic Centre – does not make this urgent though advice on the most appropriate timing and approach to marketing will be needed. It is recommended that we obtain this advice and agree a timescale with the College. Any decision on actual disposal will require a further report to Cabinet.

3 **Use of the Civic Centre**

3.1 The Council will continue to occupy and deliver its services from the Civic Centre until January 2017 and primary objectives during this period should be:

- To keep running costs to a reasonable minimum
- To produce a net reduction of space the Council occupies (and therefore cost)
- To prepare as far as is possible for the new and flexible ways of working in the PSQ. This will require locational consolidation and relocation of a number of teams within the Civic Centre to better model this.

3.2 To this end a locational consolidation project will be established to continue the progress on flexible working and to align the use of the Civic Centre to assist in the culture change of the eventual move to the PSQ.

3.3 **Running costs**

3.3.1 The aim will be to avoid any major expenditure on replacement of plant and any major works within the building though in the case of obvious problems – boilers and leaks were serious issues this winter – these will have to be addressed.

3.3.2 The other means of reducing running costs will be:

- Reducing the space occupied in such a way that allows parts of the building to be closed (Block B as a total entity lends itself to this); and/or
- Getting additional users to come into the building to share costs (see below)
- Consider demolition of parts that the Council no longer requires – the Magistrates Court and Block B if they can be completely cleared. Savings could be made on running costs and National Non Domestic Rates (NNDR) which the Group Manager Commercial Assets and Property Development has advised would outweigh costs of demolition (which having been achieved would increase the price that a developer would pay).

3.4 Continuing progress on new ways of working

- 3.4.1 In conjunction with the above it is intended to move as far as is possible within the Civic centre to the 'hot-desking' and flexible working that will apply in the PSQ. This will require a complete review of how the space can be used and a range of relocations where required (and Serco are already assisting in this review). If, for example, staff are moving out from Block B then space will be needed for around 100 staff and this couldn't be achieved without some movement of other teams. There will be cultural challenges for groups who have worked in 'their' space for years (decades in some cases!) but one that has to be seen through. There may be need for appropriate furniture and IT where current provision is totally inadequate.
- 3.4.2 The PSQ Reserve was increased at the end of 2013/14 and it is proposed to use resources from here to fund any requirements.

3.5 Attracting additional users

- 3.5.1 The most likely additional user of space within the Civic Centre is HCC Library Service and this is currently being examined.

4 Use of 39/41The Marlowes

- 4.1 The end use of the building (or its site) is almost certainly for residential and it is already included in the current Gade Zone procurement (the preferred bidder proposes residential redevelopment and this element will be accelerated). It is planned that the successful bidder will submit a planning application in late 2014 with work starting in 2015.
- 4.2 Using the building for short term use is problematic and is not recommended. It would involve some works and associated costs to meet standards and would only be available for a very short period until required for regeneration.
- 4.3 Steps can be taken to minimise the NNDR and other burdens though the possibility of an early demolition will be considered.

5 PSQ funding considerations

5.1 Cost of the PSQ

5.1.1 The tendered indicative cost of the PSQ from the preferred bidder is set out elsewhere on this agenda in the Part II report on the tender evaluation. The amount included in the budget is £15M. This was based on an estimated build cost with a clear indication that the actual costs would depend on the tendered prices. The price does not incorporate our own contingency, any Council required minor changes to design, furniture, technical support the impact of unforeseen ground conditions and service linkage costs and the impact of an overheating construction industry. The latest BIS *New Construction Output Price Indices* 4Q 2013 indicates private non housing inflation running at 6.8% per annum. The development agreement, which will with the selected bidder will aim to fix up to 80% of costs though will have to accommodate some of the above. These costs are made up of:

- Technical support £200K
- Legal costs £50K
- Furniture and ancillary £500K
- Contingency £1000K

5.1.2 The level of contingency, at 6.7%, is at the lower end of the industry norm but takes account of the nature of the process adopted which has already agreed the bulk of the contract terms in advance and seeks to fix prices as much as possible in advance of work starting.

5.1.3 It is recommended that budget provision of £16.75M be made, an increase of £1.75M on the currently approved budget.