



**Report for:
ACTION**

**Item Number:
10**

Contains Confidential or Exempt Information	YES (Part) Appendices 2 to 4 exempt from publication pursuant to para 10.4 (3) of the Access to Information Procedure Rules) Appendix 2 - Financial Scoring Assessment and Financial Implications of the bids Appendix 3 - Report of Lambert Smith Hampton, the Council's retained property advisors Appendix 4 - Legal Report of Wragge GWL, the council's external lawyers.
Title	Selection of a preferred partner for the re-development of Perceval House
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Portfolio(s)	Regeneration and Property, Finance, Performance and Welfare Leisure, Culture and Customer Services
For Consideration By	Cabinet
Date to be considered	11 July 2017
Implementation Date if Not Called In	24 July 2017
Affected Wards	All
Keywords/Index	Perceval House, Ealing Broadway, Ealing Central Library, Regeneration, Customer Services

Purpose of Report:

The main purpose of the report is for Cabinet to select a preferred partner for the re-development of Perceval House. Authority is also sought for officers to take the necessary steps to secure the re-development and to approve the budget required to undertake the redevelopment.

1. Recommendations

- 1.1 Notes the bids received from the 2 remaining bidders for the redevelopment of the Perceval House site as summarised below and in the attached appendices.
- 1.2 Approves the selection of Galliford Try as the Council's preferred partner.
- 1.3 Approves Muse Developments Ltd as the Council's reserve partner should an acceptable development agreement not be achieved with the preferred partner.

- 1.4 Delegates authority to the Executive Director for Housing and Regeneration following consultation with the Director of Legal and Democratic Services and the Portfolio holder for Regeneration and the Portfolio holder for Finance and Performance to finalise the development agreement with the preferred bidder providing for the grant a long lease or leases of 250 years for the Perceval House site and any building licences required and estate management agreements as may be required for recommendation to Cabinet for final approval.
- 1.5 To note and agree the intention to purchase affordable housing in the Perceval House redevelopment scheme through Broadway Living subject to the approval of the Broadway Living Board and the Council as funder agreeing the purchase through their business planning process.
- 1.6 To agree a capital budget of £60.036m required for the project as set out in section 11.2. The new capital programme is to be called Perceval House Redevelopment to be funded from capital receipts generated by the project and in the interim by mainstream prudential borrowing due to the difference in timings for expenditure on new offices and income received by the council to offset that expenditure.
- 1.7 To agree a capital budget of £3.705m required for the funding of the councils option space as set out in section 11.2 and the implications for the councils borrowing requirements as the cost of the borrowing is covered by accommodations savings and/or income from third parties not through the development returns of the project.
- 1.8 Agree in principle the appropriation of the Perceval House site for planning purposes.
- 1.9 Recommend to Full Council that the Treasury Management Strategy and relevant prudential indicators are amended to reflect the new capital programme as referred to in recommendations 1.6 and 1.7 above.
- 1.10 Delegate authority for the Executive Director of Regeneration and Housing to negotiate and enter into any arrangements necessary to secure the relocation of the electricity substation on the Perceval House site to facilitate the redevelopment.

2. Reason for Decision and Options Considered

- 2.1 On the 20th October 2015 Cabinet agreed the following recommendations
- 2.2 'That the Director of Regeneration and Planning be authorised to invite and evaluate tenders for the selection of a joint venture partner for redevelopment of the Perceval House site defined on the map using either the Competitive Procedure with negotiation or the Competitive Dialogue Procedure
 - That Cabinet agree that the Council's requirements specified in the procurement process will be:
 - Between 121,000 and 133,000 ft² for its offices, library and customers services either on the site or in the Ealing Broadway area

- New offices for the Council to be ready to move into prior to the demolition of Perceval House or the partner to provide interim accommodation.
- The council to be a joint venture partner for the development for up to 50% of the sale elements of the scheme.
- The council to have the option to purchase any affordable homes created in the scheme subject to funding being available.
- That Broadway Living be invited to act as the council's partner for any market rent homes created as part of the affordable housing requirement.'

2.3 The Council has invited and evaluated tenders and this reports sets out the results and recommendations of that process

3 Background

3.1 Perceval House and car park site is an area of 1.29ha (3.18 acres). The entire site is in Council freehold ownership and the vast majority of the site is occupied by the Council for office uses. The electricity sub-station to the front of the car park is occupied under a long lease by Scottish and Southern Electricity (SSE).

3.2 The current building has a gross floor area of 215,000 ft² (20,000sqm) over 6 floors. This provides a useable internal floor area of 167,000 ft² with approximately 2000 desk spaces. The car park has 114 car parking spaces of which 90 are general parking spaces, 8 disabled spaces, 8 reserved for Councillors, 6 for City Car Club and 2 other reserved spaces. There is also an area for motorcycle and cycle parking. The current building design and floor plan means considerable areas of the site are not used efficiently.

3.3 In the report to Cabinet dated 20th October 2015 it was recognised that the building is over 30 years old and that much of its electrical/mechanical services such as air conditioning, lifts, plumbing etc. are coming towards the end of their life and it is also energy inefficient. It was recognised that the building was likely to require significant expenditure in the next 10-20 years to keep it functioning as an office, albeit the cost for future works is unknown.

3.4 The report of October 2015 also anticipated that there was likely to be a reduction in the total numbers of staff working for the Council in the coming years and noted that a surplus part of the building was already rented out to the Ealing Clinical Commissioning Group. The increased use of online services has also significantly reduced the need for the large customer services facility on the ground floor. Ongoing improvements to ICT and implementing 'New Ways of Working' (as set out in section7) will enable more flexible working and therefore means that less staff will need a permanent desk space in the new building. Surveys of the current use of space in Perceval House support this and have been used to set the Council's future space requirement.

3.5 The October 2015 Cabinet report identified an opportunity for the Council to develop new modern offices whilst also delivering new homes in the borough and to bring forward a scheme that will enhance the town centre and the office corridor.

3.6 The report also set out the expectations that new ways of flexible working would be needed to enable the more efficient use of office space and the achievement of new space standards.

4. Procurement process and the Council's objectives

4.1 Following approval from Cabinet an EU compliant procurement process was undertaken using competitive dialogue to select a preferred bidder. The Council set 6 strategic objectives for the project that bidders had to meet as set out below.

- To provide new office accommodation which will be the Council's main base for delivery of its functions and those of partner organisations. This will comprise 100,000 ft² net internal area (NIA) of new offices in Phase 1 and a Customer Service Centre/Library of 2,739 sq (convert to Ft²) m NIA at another point during the project. The Council also requires an option to purchase a further 16,500 ft² (NIA) of office space to be delivered at another point in the project (the Option Space). The office accommodation may be provided on the site or in the wider Ealing Broadway area/Ealing Office corridor providing it is developed in accordance with the Employers Requirements.
- To develop a mixed use scheme with 50% of the housing being affordable
- To share in the development risks and to share in the rewards of a successful development in order to increase the return to the Council
- A profitable scheme which will not require the Council to make additional funding available for the cost of its accommodation requirements and generate a surplus beyond this.
- The Council to have an option to purchase the affordable homes (most likely via Broadway Living) at an agreed price as set out in the Employer's Requirements and the bidders' development assumptions.
- A high quality scheme that enhances the town centre.

4.2 The scoring system reflected the 6 objectives. These were

4.2.1 Qualitative -60% of score

Planning and Design – 15%

Planning Deliverability – 7.5%

Mix of proposed use and phasing – 7.5%

Council Accommodation – 10%

Affordable Housing – 10%

Project Management, Project Team and Risk Management – 10%

4.2.2 Commercial – 35%

Financial offer – 20%

Financial robustness – 15%

4.2.3 Legal Agreement – 5%

4.3 In addition there were 3 pass/fail scores where any bids that fell below the minimum threshold were eliminated but no bids were eliminated on this basis. The three pass/fail areas were

- Council offices
- Financial robustness
- Legal agreement

4.4 Bidders had to submit offers on both a full joint venture and a limited joint venture bid basis as follows.

- Full Joint Venture. No requirement for land payment but one could be made. Costs and profits and risks are shared between the Council and the developer. This might result in a higher return to the Council but there is greater risk that less money will be made if the scheme under performs. Also referred to as option 1 in the legal report - appendix 4
- Limited Joint Venture. This required a land payment to the council but the developers get priority return with profit share of any profits above the priority return level. It was up to the bidders to determine the level of land payments and percentage priority profit. The Council gets more certainty over the amount of funding guaranteed but it may be a lower return overall. This is referred to as the traditional or option 2 in the legal report - appendix 4.

4.5 The procurement process commenced with the initial Pre-Qualification stage on the 19th July 2016

4.6 13 bidders completed the Pre Qualification questionnaire in advance of the 13th September 2016 deadline. 5 bidders were selected to go through the next stage. Following the commencement of the next stage of the procurement process (Invitation to Submit Outline Solutions) 3 of the 5 bidders withdrew citing commercial considerations. 2 bidders submitted compliant outline stage tender proposals.

4.7 The original process involved 2 further submission stages, detailed solutions and best and final offers. In the event, given that the number of participants had been reduced to 2 at an earlier than anticipated stage and given also that the quality of the bids received at outline stage had, in many respects, exceeded the requirements of the detailed stage it was considered unnecessary to continue to further intermediate stages of the process and instead proceed directly to the final bid stage. The Council had reserved the flexibility to curtail the process within the procurement process set out upon commencement of the exercise.

5. Final tender stage criteria and Analysis

5.1 The two compliant bids received at the final bid stage were subject to detailed analysis and dialogue with bidders. Bidders were able to meet Council officers and external advisors during the bid process in order to clarify approaches, indicate any areas of concern and identify possible solutions through the

process. The main features of each proposal are now summarised below with an assessment of them under each of the main selection criteria headings. However it must be stressed that this process selects the preferred partner with an indicative design that will be developed with the Council into a viable planning compliant scheme and therefore it is anticipated that the proposed design solution will change during that process. The design of the schemes was not varied between the full and limited joint venture proposals and the qualitative scores remain the same for both.

Council Accommodation		
	Galliford Try	Muse
Council Office	126,283 sq. ft GIA 101,026 sq. ft NIA	122,169 sq. ft GIA 102,011 sq. ft NIA
Library and CSC	40,800 sq. ft GIA 32,640 sq. ft NIA	31,334 sq. ft GIA 31,334 sq. ft NIA
Office Basement	31,516 sq. ft – 60 spaces	21,257 sq. ft GIA – 60 spaces
Comments	<ul style="list-style-type: none"> • 10 storey office building (-2- 7th floor) • Located in the southern part of the site fronting Broadway. • The Option space is situated on the 7th floor. • CSC and library are within the main office building and benefit from a separate entrance. 	<ul style="list-style-type: none"> • 10 storey office building (-1 – 8th floor). • Located in the north of the site. • Option space not shown. Can be provided by extending to a 9th floor. • CSC and library on ground floor of Block A in a separate building. Arranged over ground floor and mezzanine. • The mezzanine ceiling height is low at 2.6m.

Residential		
	Galliford Try	Muse
Private residential	236 units 191,758 sq. ft GIA 153,406 sq. ft NIA	316 units 273,744 sq. ft GIA 209,068 sq. ft NIA
Affordable Residential	235 units - 50% allocation 201,220 sq. ft GIA 160,976 sq. ft NIA	159 units – 33.5% allocation 137,682 sq. ft GIA 104,153 sq. ft NIA
Residential Basement	43,055 sq. ft 60 car spaces	98,684 sq. ft 152 car spaces
Comments	<ul style="list-style-type: none"> • The residential blocks range in height from 3 to 20 storeys. The 20 storey block is located in the north eastern corner of the site 	<ul style="list-style-type: none"> • The residential blocks range in height from 14 to 26 storeys. The 24 storey block is located in the north eastern corner of the site. • The scheme height has been reduced during the clarification process following feedback by the planning department.

Commercial		
	Galliford Try	Muse
Commercial	4 retail units 10,593 sq. ft NIA Units range from 1,379–4,263 sq. ft	5 retail units 16,231 sq. ft NIA Units range from 2,583 – 4,402 sq. ft.
Sub Station		
Sub Station	Galliford Try <ul style="list-style-type: none"> Relocated to a basement in the south eastern corner of the site below the public plaza. Lifting beam and access to be built into the plaza to allow for future maintenance/ replacement. 	Muse <ul style="list-style-type: none"> Relocated to north western corner of the site close to Craven Avenue. Split level solution (ground and basement)

The full results of the scores are contained in Confidential Appendix 3.

5.2 Design information

5.3 **Muse.** The massing and heights of the proposed scheme mean that the higher elements will potentially visible above the listed Town Hall at street level and the developer has already undertaken design revisions to reduce that impact. In other respects the scheme generally meets the Council’s design expectations.

5.4 **Galliford Try.** The proposal exceeds the expectations of the brief by relocating the new offices to the front of site which enhances the office corridor and creates a civic focus adjacent to the listed Town Hall and enables the new council offices to be co-located with the proposed library and customer services. The sub-station is relocated into the basement of the new civic building on the Uxbridge Road.

5.5 Planning Deliverability

5.6 **Muse.** The proposal does not meet the Council’s objective of 50% affordable housing. However, the proposal meets or is very close to meeting the new Mayoral proposal of 35% without requiring a viability justification. The level of affordable housing offered is assessed in terms of scoring as part of this section and also as part of the Financial Offer section as set out below.

5.7 The design may pose some challenges around the visibility over the roof line of the listed Town Hall building and the developer has already revised the design to reduce that impact.

5.8 **Galliford Try.** The Galliford Try proposal meets the Council's policy objective of 50% affordable and the design exceeds the expectations of the project brief through the location of the new council offices. The height and massing of the design creates limited intrusions above the roof line of the Town Hall

5.9 Mix of proposed uses and phasing

5.10 **Muse.** The main uses of the site are the Council's accommodation requirements and housing. There is a small element of commercial use proposed on the ground floor to provide active frontages along the Uxbridge Rd. The first phases of construction are the relocation of the sub-station to the western edge of the car park and the construction of the Council's offices. Once the new offices are occupied, Perceval House will be demolished and the rest of the site built out. The library and Customer Services Centre would be located on the ground floor of the second phase with residential above. The proposal meets the required standard in all material respects

5.11 **Galliford Try.** The main uses of the site are the Council's accommodation requirements and housing. There is a small element of commercial use on the ground floor to provide active frontages on the ground floor of the scheme. The first phase of construction is the decommissioning and removal of two claws of Perceval House fronting the Uxbridge Road. This creates a site for the construction of the new Council offices and Customer Services Centre/library and a new below ground site for the relocation of the sub-station. In parallel residential development takes place on the western side of the car park. Once the new Council accommodation is completed the Council will move from the retained part of Perceval House and its demolition can commence. The proposal meets the required standard in terms of mix of uses and phasing in all material respects

5.12 The Council Offices

5.13 **Muse.** Muse propose a new 10 storey office building in the existing rear car park which will be constructed in the first phase of development together with the relocation of the sub-station. The library and Customer Service Centre (CSC) will be located in a separate building to the front of the site with residential above in a later phase. This will require a temporary location for the Customer Service Centre. The proposal delivers the Council's minimum office requirements as set out in the bid documents

5.14 **Galliford Try.** Propose a new 7 - 10 storey office building including the offices, library, CSC and sub-station to the front of the site with the frontage on the Uxbridge Road which will be partly within the existing footprint of Perceval House. The CSC will need to be relocated temporarily to allow the construction of the new civic accommodation. The proposal delivers the Council's minimum office requirements as set out in the bid documents. However, by locating the new office accommodation on Uxbridge Rd this potentially increases the civic presence of the Council and may make the office space more attractive should the Council seek to let space commercially in the future. The physical viability of the proposed demolition of half of Perceval House whilst the Council remains

in occupation of the other half has been reviewed and is assessed as part of the scoring for Project Management below.

5.15 Affordable housing

5.16 All bidders were given a fixed purchase cost and mix ratio to assume for affordable housing and told to assume the Council (or Broadway Living) would be the purchasers of the affordable units. During the clarification process it was agreed that a proportion of affordable units could be sold and funded by a third party. However neither of the final bidders has chosen to do this. The percentage of affordable housing provided was scored in the Planning Deliverability section (above) and the Financial Offer section (below). In this section the scoring is assessed by reference to the proposed location and design of the affordable homes. Both bids conform to the recommended mix of units. In both proposals the location of the units was also spread across the design without the affordable units being accorded less desirable locations. The affordable units are not identifiable by design or subject to lower standards of build based on an assessment of the design information provided at this stage.

5.17 Project management, risk management and proposed team

5.18 **Muse.** They have considerable experience of similar projects and locations. The timetable and project team and risk management met the requirements of the bidding process.

5.19 **Galliford Try.** They also have considerable experience of similar projects and locations both as a developer and the proposed project team in particular. The timetable, project team and risk management meet the requirements of the bidding process. Given that part of their proposal involved the decommissioning and removal of parts of Perceval House while the Council remains in occupation, Galliford Try's proposal has been assessed to ensure that the construction proposal is technically feasible.

5.20 Commercial - Financial offer and robustness of financial offer and profit share/windfall arrangements

5.21 Bidders had to submit offers on both a full joint venture in which profit and a limited joint venture bid on the following basis.

- Full Joint Venture. No requirement for land payment but one could be made. Costs and profits and risks are shared between the council and the developer. This might result in a higher return to the council but there is greater risk that less money will be made if the scheme under performs. This is also referred to as option 1 in the legal report - appendix 4.
- Limited Joint Venture. This required a land payment to the council but the developers get priority return with profit share of any profits above the priority return level. It was up to the bidders to determine the level of land payments and percentage priority profit. The council gets more certainty over the amount of funding guaranteed but it may be a lower

return overall. This is referred to as the traditional or option 2 in the legal report - appendix 4.

- 5.22 The scoring reflects the requirement that the bids must meet the cost of the Council offices and Customer Services Centre/library. The Council also required a further option space for the potential relocation of services currently based in Carmelita House. This latter option was not required to be funded from the redevelopment.
- 5.23 The Council's scoring system uses Net Present Value (NPV) figures to allow for the impact of the timing of payment to be considered and a financial penalty is applied to the bid for each percentage point below the target 50%affordable housing being delivered. Returns that are not guaranteed are also weighted to reflect the risk that the income may not be secured if the scheme under performs.

In addition to assessing the financial numbers presented a detailed analysis of those numbers was undertaken in order to assess the financial robustness of the bids. Assumptions about construction costs, sale prices and timing ensured were assessed to ensure that the returns offered could be considered realistic. Scores were also awarded for the arrangements for sharing additional profit/windfalls.

- 5.24 Details of the financial offers are set out in the financial scoring assessment and implications of the bids appendix 2 and in appendix 3 the Lambert Smith Hampton Report.
- 5.25 Legal agreement
- 5.26 Detail assessment of both bidders legal offer and scoring recommendations are set out in confidential appendix 4 the report by the council's external lawyers.
- 5.27 **Muse.** They have submitted a response offering both Option 1 (a JV) and Option 2 (a limited joint venture). In either option, Muse adopts a phase by phase approach to the development. The full joint venture is the highest scoring Muse proposal and the second highest score overall.
- 5.28 Muse prefers a phase by phase approach viability test. This relates to the greater risk and reward proposed. As a result, the level of potential land value payable to the Council will not crystallise until the viability test is undertaken at the start of each phase. Only at that point will the land value be underwritten.
- 5.29 The Muse highest scoring proposal requires entering into a joint venture with the Council (on either a corporate or a contractual basis). As would be expected, there is a greater degree of risk and potential reward associated with a JV route. An element of the land value is guaranteed by the JV on each phase and the balance amounts to the Council's 50:50 equity participation which will be calculated on a phase by phase basis. Given this, the Council should note that it is effectively only receiving a guarantee of one half of the 'guaranteed' land value from Muse.

5.30 This way there is less certainty on committing to construction of the offices (than with the GT bid), that said, the Council will benefit from 100% of the land value uplift at the start of each phase in a rising market. This can be contrasted with the GT bid where the Council only receives a share of profit after the developers priority return.

5.31 **Galliford Try.** They submitted a response offering both types of JV options but made it clear their preference is Option 2 (a limited JV route) which the highest scoring bid overall. As mentioned above, the impact of this is that the Council only shares in value growth through its participation in profit share after the developer's priority return but is not exposed to the risk of this not being a cost neutral scheme, on the basis that the land value and construction costs are fixed.

5.32 **Galliford Try.** They only seek one viability test at the commencement of the scheme. This reduces the risk that the scheme stalls between phases and provides greater certainty to the council over the land payment and potential profit share.

6. Conclusion of the Scoring Process

6.1 Both bids are considered strong bids and the scores are in the table below. The bid received from Galliford Try was assessed to be the most economically advantageous in line with the published scoring criteria and it is therefore recommended that Galliford Try be selected as the preferred bidder.

6.2 The Muse proposal has scored satisfactorily and met the Council's criteria and therefore it is proposed that they are held as a reserve bidder.

	76.22%		78.62%		88.50%		71.82%		Wt
	Muse (Partial JV)		Muse (Full JV)		Galliford Try (Partial JV)		GT (Full JV)		
Design Information	100	12.11%			500	15.00%			15%
Planning, Delivery etc	100	12.11%			500	15.00%			7.50%
M.A. or Proposed Uses and Program	100	6.06%			500	6.00%			7.50%
The Council's Offices	100	6.06%			500	6.00%			20%
The Affordable Housing	400	8.00%			400	8.00%			16%
Projections Risk Management, Program and the Proposal	400	8.00%			400	8.00%			16%
Method Statement		4.03%				2.00%			
Human Capital	1400	14.00%	1400	14.00%	2000	10.00%	800	8.00%	16%
Robustness of Human Model and									
Commercial Capital	4	0.00%	4	0.00%	4	0.00%	4	0.00%	0.00%
Welfare Proposal	4	0.00%	4	0.00%	4	0.00%	4	0.00%	0.00%
Completion		20.12%		10.00%		8.00%		1.00%	
Acceptability of Proposal									
Amendments to the Heads of Terms	8	8.00%			4	4.00%			8%
Leg		8.00%				4.00%			

- 6.3 **Galliford Try.** They have focused on its strength as a housing developer with the ability to deliver a major mixed use scheme. Their design solution exceeds the councils expectations based on a solution that was not previously considered possible. It meets the Council's 50% affordable housing tender requirement and the limited joint venture approach reduces the risk that the cost of the council offices will not be met if the scheme under performs.
- 6.4 The scheme relies on lower sales values for private residential units and car parking and this means there is scope for improved profitability if the housing market improves and less risk if it weakens. The offer to the council of a guaranteed land payment and share of development profit after the developers priority together with achieving 50% affordable housing created the strongest commercial offer under the bid scoring system.
- 6.5 **Muse.** They have focused on its strength as an “enabling” developer with considerable experience of developing civic accommodation for public sector partners often with the benefit of cross subsidy from other value generating uses. Muse prefers a full joint venture structure with the Council benefitting from an enhanced share of the overall return to reflect a higher risk position. MD cannot commit to a proposal based on an affordable housing allocation higher than 35% which is a key consideration in comparing the bid to GT whose proposal meets that project objective. The Muse bid scored less well on design and planning deliverability and this gave a lower score. The higher risk of the income to the council and the lower level of affordable housing meant a lower score on the commercial offer. However it was still a strong proposal and a deliverable project and therefore its recommended that they are held as a reserve bidder.

7. Next Steps

- 7.1 Following selection of a preferred bidder the next step will be to negotiate and agree the terms of the development agreement with them. The Council has already provided a first draft to bidders and received comments as part of the selection process. These will now need to be developed into a final agreement that can be signed. Once final terms are close to agreement the draft terms will be brought back to Cabinet for approval.
- 7.2 In parallel with this, the preferred bidder will begin working up a detailed scheme to move towards a planning submission. Whist the selection process has involved indicative designs to be produced these will now be worked up in detail and will require the appropriate consultation internally and externally. The Council has a number of roles in such a process. As a landowner it will seek a design that delivers the best return consistent with its overall requirements, as office occupier it needs offices fit for its purposes, as housing authority it seeks to increase the supply of homes including affordable homes and as a planning authority it seeks a scheme that meets the relevant planning policies. The proposal will be subject to Mayoral approval as part of the planning purpose in due course.
- 7.3 In terms of the development agreement, the Council will retain the freehold of the whole site and will grant a long lease (or leases) to the development partner of 250 years to enable it to sell the private sale units and the affordable units.

The lease will only be granted when the conditions precedent in the development agreement have been met. The conditions precedent include planning permission, a viability test and securing vacant possession (including the existing sub-station area).

7.4 The proposed timetable for the next stage of the process was set out in the preferred developers bid is.

- Development Agreement signed - November 2017
- Planning application design commences October 2017
- Planning decision – March 2018
- Start on site and Council decommissions part of Perceval House - Sept 2018
- Completion of the final phase 3 – March 2025

7.5 Before any final agreement is reached on a timetable the Council will however need to review these dates taking into account the timetable for the redevelopment of Ealing Town Hall in particular. Past experience of complicated schemes such as this also indicates that this process can take longer in practice than as currently outlined due to unexpected issues and market change.

8. Affordable Housing

8.1 The procurement process gave the council the first option to purchase the affordable housing and it was assumed that if this took place it would be through Broadway Living. The price and mix was set prior to bidding commencing and therefore the difference in price purely relates to the total number of units.

8.2 The cost of acquiring the affordable housing is set out below. If the units are purchased via Broadway Living this is the cost of purchasing them but there will costs to the purchaser that will need to be funded through the Broadway Living Business plan e.g. funding for stage payments, legal costs, project management and void periods prior to first let. The implications of this and the borrowing required will be set out in the business plan for Broadway Living as it is developed and the approval of Broadway Livings Board as well as the Council as funder will be required to ensure the schemes their financial performance criteria.

	GT	Muse
Number of units	253	165
Total price	£65,242,000	£45.999,000

8.3 If Broadway Living do not purchase them then the units will be purchased by a registered social landlord.

9. New Ways of Working and the Preparation for Relocation to New Offices

9.1 New Ways of Working together with the Digital Strategy, are two major projects which will support the Council's Future Ealing programme and have a significant impact on how the Council delivers its services in the future. Both

aim to create a more modern and efficient council with a focus on delivering valued outcomes to our community. New Ways of Working is a critical element that will influence the success of the Future Ealing programme, which depends upon the Council working efficiently across departments and directorates, together with Ealing's diverse local communities, residents and partners such as the Police, the NHS, schools and colleges, as well as facilitating closer working and co-operating with one another.

9.2 Specifically the Digital Strategy and New Ways of Working will:

- Enable the Council to relocate its business operations into new office accommodation that is approximately 50% smaller.
- Enable the Council to work with much greater flexibility and change its service delivery model.
- Enable a more efficient and effective organisation living within its means and delivering value for money services.
- Enhance the customer experience by enabling our staff to deliver excellent customer service where and when they need to.
- Improve the working life of staff, providing greater choice about where and how they work with modern tools to support this.
- Support the One Public Estate agenda by enabling better use of the Council's estate, facilitate co-location and closer working with partners, reducing the carbon footprint for buildings and reducing travel.
- Deliver improved management information providing a consistent framework for managing by outcomes for both the delivery of services and the management of staff.

9.3 The redevelopment of Perceval House represents a major investment for the Council but is also a key enabler for future changes. Whilst some of these changes are already being delivered through the Future Ealing programme and other major projects, the flexible operating model will also enable the Council to realise savings due to increased capacity and the ability to deploy resources where and when required to meet changing service priorities.

9.4 Ealing's emerging Digital Strategy will provide the digital aspiration and vision, the implementation of which New Ways of Working will support. Ongoing ICT improvements will deliver the underlying technology required to enable effective flexible working by packaging all the Council's software applications onto a platform which can be accessed from any location on mobile devices that are fit for purpose. Building on this the project will deliver:

- The organisational change and training required to move to a flexible operating model that will transform the manner in which the Council operates and maximise the Council's investment in technology.
- The communications tools to support successful flexible working.

10. Key Implications

- 10.1 If the redevelopment takes place on the basis set out in this report it will require the Council to invest in the development.
- 10.2 The Council will need to begin preparation now for the relocation to new offices and potentially having significantly less space in Perceval House while the construction takes place and once the new office accommodation is completed. It will also be timed carefully in conjunction with the redevelopment of Ealing Town Hall.
- 10.3 Initial work has been undertaken to identify ways of mitigating disruption during the proposed works and investigate the opportunities available in order that the Council can continue to operate efficiently during the building work. Options considered include a mix of increased flexible working; reconfiguration of the remaining part of PH to maximise space utilisation; provision of additional temporary accommodation on part of the site; and utilisation of the Councils wider property portfolio
- 10.4 The redevelopment of Perceval House will increase the supply of homes and affordable homes in Ealing.
- 10.5 The redevelopment of Perceval House will enable the Council to deliver the savings on operational costs set out in the MTFs and to generate value from the land asset.

11. Financial implications

- 11.1 The overall project will require the inception of a new capital scheme pertaining to funding of the new council office build and the accompanying programme costs. The capital scheme will be known as “Perceval House Redevelopment”.
- 11.2 Funding for the project will be from mainstream prudential borrowing. A maximum borrowing requirement exists of £63.741m.
- 11.3 Finance borrowing costs will be met through the council Treasury Management function and financed through the Treasury Management budget. Prudential indicators in the Treasury Management Strategy will require amending to reflect the additional borrowing required. The project will not create any new additional revenue pressure to the council as all Treasury Management borrowing will be repaid from revenue streams and capital receipts generated from the project. Total maximum borrowing is shown in the table below.

	£m
Main Council Office Accommodation	54.928
Programme Costs	5.108
Council office Borrowing Requirement	60.036
Council Option Space	3.705
Maximum Borrowing Requirement	63.741

- 11.4 The financial monitoring of the project will look to further maximise the return to the council and minimise costs of the project. This will be scrutinised through

the councils Future Working governance arrangements and the council's budget monitoring process over the duration of the project.

Main Council Office Accommodation/Programme Costs

- 11.5 The cost of borrowing for the main council office build and programme costs will be repaid by receipts realised by the council from the project. These receipts will be through the land payment from the developer to the council and through the overall development profit as shown in the table below.

	£m
Expenditure – New Council Offices (Funded Through Mainstream Borrowing)	
Main Council Office Build	54.928
Programme Costs	5.108
Total Expenditure	60.036
Funded by:	
Mainstream Borrowing Repaid Through Receipts Generated	(60.036)
Net cost to the Council	-

- 11.6 As shown the borrowing requirement makes provision for associated programme costs (£5.108m). The programme cost encompass the Project Management Office that is the staffing requirement needed to support the councils Future Working project and directly attributable to the redevelopment of Perceval House. Other project costs to be contained relate to New Ways of Working and external client support which is not part of the main council accommodation cost or included in any of the bidder submissions.

Council Option Space

- 11.7 There are two options for repayment of borrowing if the council proceeds with the option space as part of the new offices. It is a potential relocation space for council services currently based in Carmelita House and costs would be met through savings on current expenditure on rent by the council and rental income from the NHS who are currently co-located. If not needed for service provision then it could become an income generation project by being let to a third party at a rental value that exceeds the build and borrowing costs.
- 11.8 The financial position on the option space is summarised below.

	£m
Expenditure – Council Option Space (Funded Through Mainstream Borrowing)	
Option Space	3.705
Total Expenditure	3.705
Funded by:	

Mainstream Borrowing Repaid Cost Savings and New income Streams	(3.705)
Net cost to the Council	-

Financial Risk

- 11.9 As stated in 11.4 there is ongoing work to minimise the programme costs associated with the scheme and also maximise profitability. Should the eventual council profit share be less than is currently indicated or programme costs are not contained within the £5.108m budget there is the risk that the full receipt value will not offset the full council cost. This would potentially mean mainstream borrowing that was intended to be paid back over a shorter time period (dependent on the timing of the land payment and profit share to the council) becomes longer term with an increase in financing costs and a subsequent revenue pressure that the Council is exposed to.
- 11.10 The full capital cost is to be funded through mainstream borrowing which will then be recouped by the council through realising savings, new income streams and receipts generated by the project. The timing and phasing of council returns on the project is a financial risk. The later this is phased within the project the greater the financing cost the Council. Further dialogue with the successful bidder will work to mitigate this risk.
- 11.11 Should the council option space be let commercially there is a risk that a tenant may not be identifiable. This is mitigated by the fact that expected capital repayment upon the space is below the current market rent levels in the area and at a lower level than the CCG currently rent space in the existing Perceval House.
- 11.12 Current costings for the new office build are also based upon bidders' estimates. There is a risk that should some of these costs be under estimated, the current borrowing requirement would not be sufficient. This should become clearer once a final bidder is selected and detailed negotiations and planning is undertaken. Should cost estimates be found to be insufficient then subsequent further approval will be needed by Cabinet.

MTFS Savings

- 11.13 The MTFS update at November 2014 Cabinet approved a saving of £4.000m on the Perceval House running costs from 2017/18. This saving is intended to be met from the new council offices and associated cost savings and income streams (see confidential appendix).

12 Legal implications

- 12.1 The procurement process for the selection of a preferred bidder has been undertaken in accordance with the Council's Contract Procedure Rules and the Public Contracts Regulations 2015 as applicable using the competitive dialogue procedure.

- 12.2 The Council may appropriate any land in its ownership which is no longer required for the purpose for which it is held for another purposes. It is proposed that the Council appropriates the Site for planning purposes
- 12.3 Where land has been appropriated for planning purposes the Council may dispose of the land under section 233(1) of the 1990 Act to secure the best use of that land or secure the construction of buildings needed for the proper planning of the area.
- 12.4 Under section 203 of the Housing and Planning Act 2016 the Council may override easements and other third party rights (not including rights of way) when undertaking works to or using land where
- a) There is planning consent for the works or use
 - b) The land has at any time after 13 July 2016 been vested in, acquired or appropriated by the Council for planning purposes
 - c) The Council could acquire the land compulsorily
 - d) The works or use relate to the purpose for which the land was vested in or acquired or appropriated by the Council
- 12.5 The beneficiaries of any rights overridden by virtue of section 203 of the 2016 Act may, however, claim compensation (equal to the loss in value of their property caused by losing the right) but cannot seek an injunction to delay or terminate the development.
- 12.6 The impact of any appropriation on third party rights will be considered in detail once the details of the proposed scheme are known and will be taken into account before any final edition is taken to appropriate the site.

13 Sustainability Impact Appraisal

- 13.1 Perceval House is over 30 years old and has all the problems of an older office building in terms of energy use. The current building's impact could be improved through a programme of refurbishment but only newly constructed buildings would be capable of meeting the higher standards of sustainability. The improved sustainability would also have a major cost benefit to the Council due to reduced energy use.

14 Risk Management

- 14.1 This is a major project and there will need to be a risk management plan. The table below sets out the principle risks and the mitigation approach.

Risk	Implication	Mitigation
The developer and the council do not agree suitable terms for the development agreement to be concluded	The scheme stalls as it is not possible to sign a development agreement	The preferred bidder has already had a draft agreement and met with Wragge Gowling. No issues have been identified that would prevent both sides reaching an agreement
Planning permission cannot be obtained for a scheme that is viable	The scheme stalls	The indicative designs have been assessed by strategic planning staff and supported by a financial model
The market conditions for private sale in the	The scheme stalls as a condition precedent for	The scheme will be modified during its development into planning application

future mean the scheme is not viable	proceeding will be passing viability design	and market conditions will influence that design if required. There is a mechanism for considering the overall viability in considering the obligations required under planning.
The Council is not ready to move into smaller offices	The scheme is delayed and there may be financial consequences if the council is unable to achieve vacant possession	Considerable work has been done on the Council's accommodation needs and the future office requirement is based on that. Work has begun on introducing New Ways of Working to help the Council prepare. There is also a need to monitor the timetable for the redevelopment of Ealing Town Hall as any delay there could impact on the project. The council can also make use of temporary accommodation funded by the developer and other buildings in the councils portfolio.
Scottish and Southern Electricity (SSE) refuse to relocate the electricity substation at a timing or price that makes the overall scheme viable	The scheme stalls as vacant possession of the site is not possible.	Discussions have already been carried out with SSE and designs options have been prepared and they have indicated they are prepared to relocate. If they refused the design could be modified as the lease allows over sailing of the SSE site. SSE is not keen on that option and therefore unlikely to want this to be the outcome.

14 Community Safety

14.1 There are no direct implications

15 Links to the 6 Priorities for the Borough

15.1 The project will help achieve the 6 priorities in the following ways

- Increase the supply of homes, especially affordable homes
- Reduce operating costs allow more funding to be directed at front line services
- Improve the accessibility of public services to the public
- Create more sustainable environmentally friendly office accommodation that reduces our impact upon the environment

16 Equalities, Human Rights and Community Cohesion

16.1 Placing the existing functions of the council offices, customer services and library into a new single location will improve the accessibility of council services to the public.

16.2 The implementation of new ways of working will facilitate delivery of the services within the community at the point of need.

17 Staffing/Workforce and Accommodation implications:

17.1 The success of the project will be linked to other projects that reduce the need for the current level of operational accommodation. A major goal of the project is to develop better more modern offices which should improve the working conditions of the staff in the new building. There will need to be a process of consultation and engagement with staff, Trade Unions and Partners in the design of the new offices if the decision is made to proceed with the project.

18 Property and Assets

18.1 Perceval House is an existing asset owned by the Council and has a book value. The impact of redevelopment needs to take account of this. The initial appraisal shows that the capital value of the new offices will offset any loss of book value.

19 Any other implications:

19.1 None

20 Consultation

20.1 No external consultation has been undertaken at this initial stage of the project

21 Timetable for Implementation

21.1 The proposed timetable for the next stage of the process was set out in the preferred developer bid is.

- Development Agreement signed - November 2017
- Planning application design commences October 2017
- Planning decision – March 2018
- Start on site and Council decommissions part of Perceval House - Sept 2018
- Completion of the final phase 3 – March 2025

22 Appendices

Appendix 1 - Map of Perceval House and its car park

Confidential Appendix 2 - Financial Scoring Assessment and Financial Implications of the bids

Confidential Appendix 3 - Report of Lambert Smith Hampton, the Council's retained property advisors

Confidential Appendix 4 - Legal report of Gowling WLG, the council's external lawyers.

23 Background Information

20th October 2015 Cabinet report – The Future of Perceval House

24 Consultation

Name of consultee	Post held	Date sent to consultee	Date response received	Comments appear in paragraph:
Internal				
Lucy Taylor	Acting Executive Director, Regeneration and Housing	22/06/2017		Contained in the body of the report
Ian O Donnell	Executive Director of Corporate Resources	22/06/2017		Contained in the body of the report
Helen Harris	Director of Legal and Democratic Services	22/06/2017		Contained in the body of the report
Julian Bell	Leader of the Council	22/06/2017		Contained in the body of the report
Yvonne Johnson	Lead Member for Finance, Performance and Welfare	22/06/2017		Contained in the body of the report
Patricia Walker	Lead Member for Leisure, Culture and Customer Services	22/06/2017		Contained in the body of the report
Ross Brown	Director of Finance	22/06/2017		Contained in the body of the report
Andrew Reeve	Finance Business Partner	22/06/2017		Contained in the body of the report

Report History

Decision type:	Urgency item?
Key decision	No
Report no:	Report author and contact for queries: David Hennings ext 6539