



**REGENERIS**

Independent Appraisal - OBC Review -  
Ellesmere Port Public Sector Hub

A Report by Regeneris Consulting

30 April 2018

# Cheshire West and Chester Council

## Independent Appraisal - OBC Review - Ellesmere Port Public Sector Hub

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# 1. Introduction

## The Appraisal Process

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- 1.1 The Ellesmere Port Public Sector Hub (hereafter referred to in this report as the 'Hub') is a £31m project applying for £8.3m Local Growth funding (LGF) from Cheshire and Warrington Local Enterprise Partnership (C&W LEP).
- 1.2 The appraisal of the Hub Outline Business Case (OBC) has been undertaken by Regeneris Consulting in line with HM Treasury guidance on the Five Case Business Model, as well as our extensive experience of Green Book appraisal techniques.
- 1.3 The appraisal has been based on the following documents:
  - Ellesmere Port Public Sector Hub Outline Business Case, March 2018 v.9
  - Appendices A-N, including:
    - A: Coronation Road, Ellesmere Port, Development Options Report
    - B: Ellesmere Port Town Centre Strategy, Specification
    - C: Ellesmere Port Hub – OBC Risk Register
    - D: Ellesmere Port Hub – Longlist Options List
    - E: Ellesmere Port Hub – OBC NPV Model
    - F: Ellesmere Port Hub – OBC Qualitative Assessment
    - G: Ellesmere Port Hub – OBC Economic Case Summary
    - H: Ellesmere Port Hub – OBC Optimism Bias Calculator
    - I: Ellesmere Port Hub – OBC Economic Impact Results
    - J: Ellesmere Port Hub – OBC Development Programme
    - K: Ellesmere Port Hub – Total Floor Area
    - M: Building Better Services in Ellesmere Port Survey Results, November 2015
    - N: Ellesmere Port Hub – OBC Cash Releasing Benefits
  - Applicant's responses to the Regeneris review questions including Appendix 0: Regeneration Considerations – Additional Contribution.

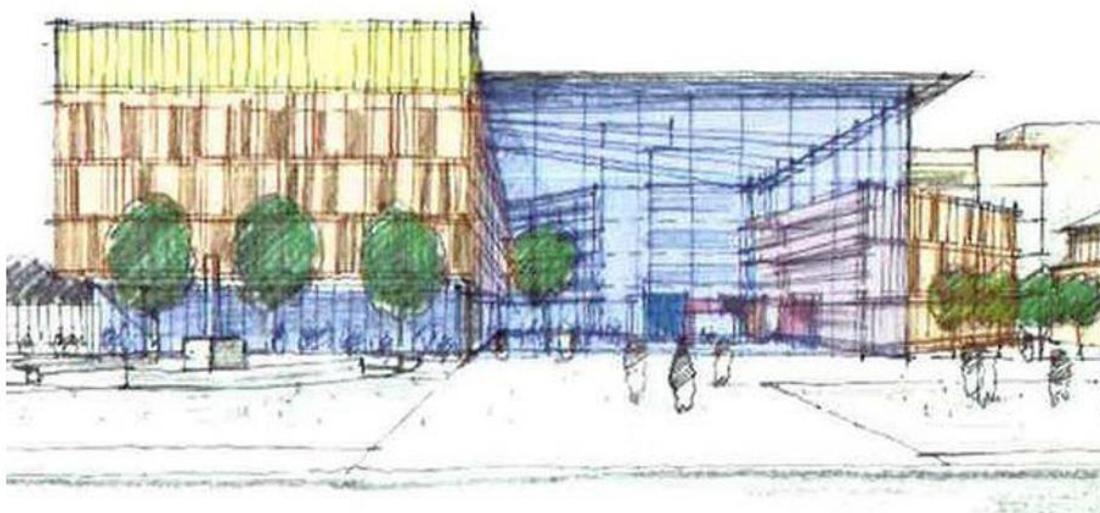
- 1.4 This appraisal report should be read in conjunction with the applicant's business case, supporting evidence, and the Regeneris initial review questions.

## Project Overview

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- 1.5 The 'Hub' project is part of the national 'One Public Estate' (OPE) programme which seeks to deliver property focused schemes in collaboration with other public-sector partners. The Hub seeks to transform the delivery of public services through co-location to provide operational efficiencies and safeguard the future of local public service delivery in Ellesmere Port. By bringing public sector organisations together, surplus sites will be released for redevelopment for other commercial and residential uses which will contribute to the wider regeneration of Ellesmere Port town centre.
- 1.6 The project will provide a purpose-built Hub shared by public sector organisations including Cheshire West and Chester local authority, housing, health and Department of Work and Pensions services. The Hub will include a Customer Service Centre; Library Service; Job Centre; Workzone; Register Office; Pharmacy; two GP surgeries; local community health services; and integrated back-office functions.

Figure 1.1 Illustrative View of 'The Hub'



Source: Ellesmere Port Public Sector Hub, Outline Business Case, March 2018

- 1.7 It is proposed that the Hub should be located on the local authority owned Civic Way Car Park, fronting the Civic Square and facing the retail gateway into The Port Arcades.
- 1.8 The existing Library building will be re-modelled and refurbished to provide additional back-office accommodation, meeting rooms and community space.

1.9 There are three principal aims to the project:

- 1) Improve local public service delivery
- 2) Catalyse regeneration and private sector investment
- 3) Support public estate efficiencies

1.10 This will be achieved through:

- Facilitating cross-agency service integration, re-design and transformation through collaboration and co-location to improve and enhance the customer experience of local public services and generate additional revenue savings in public service delivery.
- Delivering flexible, 'future-proofed' accommodation to meet increasing demand on local public services because of economic and housing growth.
- Increasing footfall in and through Ellesmere Port town centre by the local public sector workforce and residents through the re-location of staff and services into the Hub from elsewhere.
- Releasing a number of publicly owned surplus sites for redevelopment so contributing to the further regeneration of Ellesmere Port town centre as a place to live, work and visit.
- Catalysing further private sector investment in the town centre and wider area by proactively demonstrating public sector confidence in the locality.
- Enabling the rationalisation of the public estate in Ellesmere Port to deliver operational revenue savings through the replacement of a number of life-expired buildings with new, energy efficient accommodation; shared facilities management; and the creation of common spaces.

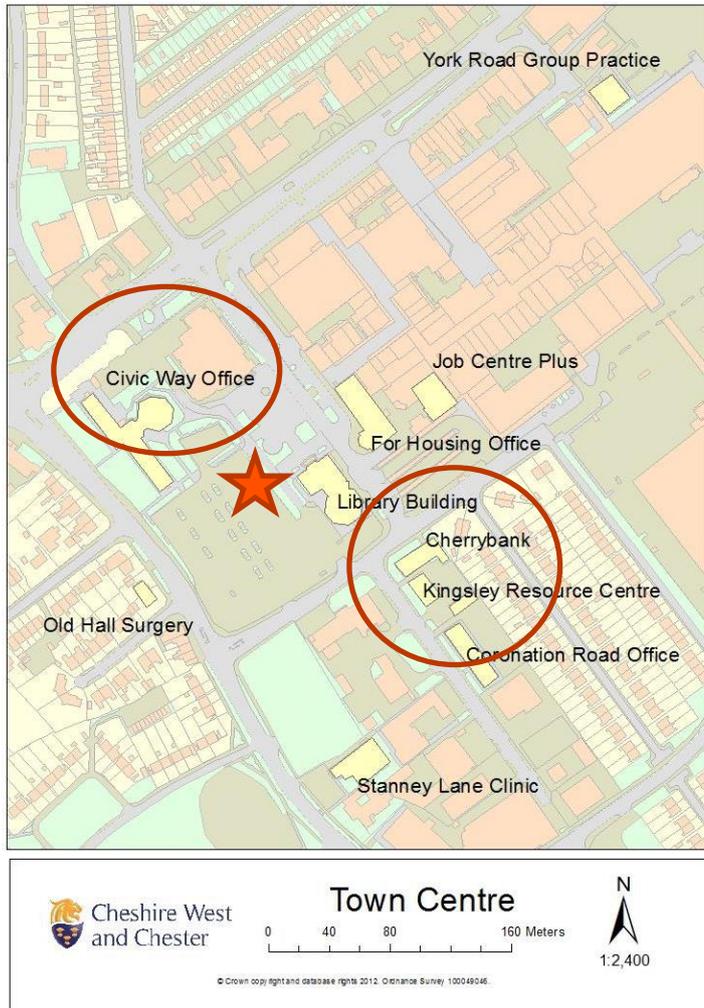
1.11 The Business Plan identifies that the capital build will commence in July 2019 and conclude in April 2021. Refurbishment of the library building will begin in April 2021 and conclude in September 2021. Site assembly and redevelopment of surplus sites will begin in September 2018 although no end date has been confirmed.

1.12 Cheshire West and Chester Council (CWAC) and West Cheshire Partner Estate Group have led on the development of the Outline Business Case (OBC) for the project.

## Wider Regeneration Process

1.13 It is intended that the Hub will form a new striking centrepiece building that will change the image and profile of Ellesmere Port and, as a result, change investor perceptions. The relocation of public services into the new building will also release a number of sites back into the market for reuse or redevelopment. Some of these are dispersed and relatively small in size and therefore offer limited redevelopment value. Others are larger in size or more closely located to enable wider site assembly and therefore generate greater redevelopment value. The two main redevelopment opportunities that fall into this second category are the current Cheshire West and Chester Council Civic Way office building and the Coronation Road Cluster.

Figure 1.2 Potential Redevelopment Sites



Source : Ellesmere Port Shared Services Hub – OBC (v9), p.25. New Hub building marked with ★

1.14 A detailed masterplanning process is currently underway that will determine the most likely development scenarios for each of the vacated sites and this area of the town centre more generally.

## 2. Strategic Case

2.1 The Strategic Case is intended to provide detail on the project, key objectives and strategic fit with relevant policies and strategies, and what it will deliver in the form of clearly defined achievements and outcomes. It provides the rationale as to why intervention is required, predicated on a robust and evidence-based case for change, and why public funding is needed.

### Main observations:

- A clear set of project objectives has been established. The most important of these for the LEP is the potential contribution the Hub can make to catalysing the economic and social role of Ellesmere Port Town Centre.
- The renewal of Ellesmere Port Town Centre is a clear priority in the Cheshire and Warrington Strategic Economic Plan (SEP). It has also been a long-standing priority in previous iterations of the SEP. The Hub project has an indicative Growth Deal 2 allocation of £8.3m.
- The delivery of the Hub project is identified as a key catalyst for change and priority project in the latest review of the Ellesmere Port Vision and Strategic Framework. It will secure long-term public sector jobs in the town centre, improve service delivery, create additional footfall in the retail centre, and release a number of sites for development.
- The need for the project is clearly outlined and valid market failure cases are presented. Implementation will help to improve local public service delivery, catalyse regeneration and private sector investment, and support public estate efficiencies. We are satisfied with the robustness of the market demand assessment which identifies demand from users and service providers.

### Project Need

2.2 In 2010, Cheshire West and Chester Council established a new partnership for Ellesmere Port, the Ellesmere Port Development Board, charged with developing a Vision and Strategic Regeneration Framework (V&SF) which was published in 2011 to support the physical and economic transformation of the town. The V&SF identified the transformation of Ellesmere Port Town Centre as a key priority to secure its future as an attractive retail, service, leisure and residential location.

- 2.3 Good progress has been made in many areas of the V&SF, but it is recognised that further targeted action is needed to transform local perceptions of the town centre, improve the retail offer, increase footfall and local spend, encourage 'dwell time', create a night-time economy and enhance the visual attractiveness of the town centre through public realm and other environmental improvements.
- 2.4 The Hub project is premised on the opportunity to rationalise the public estate in Ellesmere Port through the development of joint accommodation across public sector partners. Co-locating public services would enhance service delivery, reduce the size of the public estate, and reduce running costs for public service providers. The scale of the project would be a catalyst for the regeneration of the town centre and developments in the wider area. The public-sector hub will generate footfall to stimulate investment and increase vitality, vibrancy and developer confidence and attract private sector investment.
- 2.5 There are three principal aims to the project:
- 1) Improve local public service delivery
  - 2) Catalyse regeneration and private sector investment
  - 3) Support public estate efficiencies
- 2.6 In considering how the success of the project will be measured through the Monitoring and Evaluation Plan, the project sponsor should consider whether these aims are sufficiently SMART (Specific, Measurable, Achievable, Relevant and Timely).

## **A Strong Strategic Fit**

- 2.7 The OBC clearly outlines the synergies between the Hub project and relevant existing national, regional and local strategies of participating partners, including the Government led OPE programme, the LEP Strategic Economic Plan, the Ellesmere Port Vision and Strategic Regeneration Framework, and local partners.

2.8 The Ellesmere Port Hub project was selected as one of 12 pilot areas chosen to be part of the Government's One Public Estate (OPE) Programme, delivered by the Cabinet Office Government Property Unit and Local Government Association, in partnership with Cheshire West and Chester Council, and key local public-sector partners. The OPE programme is designed to support Councils to work successfully with central government and local partners on public property and land issues through sharing and collaboration. OPE has four priorities<sup>1</sup>:

- 1) Create economic growth – enabling released land and property to be used to stimulate economic growth, regeneration, new housing and jobs
- 2) Deliver more integrated and customer- focused services – encouraging publicly funded services to co-locate, to demonstrate service efficiencies and to work towards a more customer-focused service delivery
- 3) Generate capital receipts – through the release of land and property
- 4) Reduce running costs of central and local government assets

2.9 The refreshed Cheshire and Warrington Strategic Economic Plan establishes the growth ambition for the sub-region by 2040, which aims to:

- Grow the economy to at least £50bn per annum of GVA
- Be 20% more productive per resident than the UK average
- Create 120,000 jobs (net additional)
- Build up to 127,000 new homes

2.10 The Hub project will contribute towards meeting these targets, specifically through:

- Enabling accelerated delivery of additional homes
- Supporting investment and business growth in Ellesmere Port as an integral component of the Mersey Dee Economic Axis, Atlantic Gateway and Cheshire Science Corridor / Enterprise Zone
- Supporting the creation and ongoing development of a coordinated housing strategy that delivers high quality, innovative housing in highly sustainable locations and contributes to a more competitive employment offer

<sup>1</sup> Cabinet Office & Local Government Association, One Public Estate: Transforming Property and Services

2.11 The project is strongly aligned to the Ellesmere Port Vision and Strategic Framework (2011) which aims to stimulate, focus and support activities and developments over the next 10-15 years. Significant successes have already been secured by the V&SF, including:

- Public and private sector investment in a range of development projects totalling nearly £1.2bn and a total forecast of 2.8bn
- 2,600 jobs created
- Planning consent for 5,550 homes
- £6m of enabling infrastructure works supported by Regional Growth Fund
- Improvement in the image of Ellesmere Port
- Inclusion of key sites in the Cheshire Science Corridor Enterprise Zone

Source: AMION Consulting, 2017, Impact Assessment, Progress Review and Future Programme

2.12 However, the AMION report referenced above noted that substantial opportunities and challenges remained and recommended that the programme should be refined to target interventions in six target areas. The Ellesmere Port Hub is located within one of these areas (Ellesmere Port Central Area). The AMION report highlighted the need for significant public and private sector investment in Ellesmere Port town centre to deliver a step change in the commercial, retail and residential heart of the town. The delivery of the Hub project is identified as a key catalyst for change, securing long-term public sector jobs in the town centre; improving service delivery; creating additional footfall in the retail centre; and releasing a number of sites for development that will deliver additional secondary benefits. The Hub project (and the surplus sites this will release for development) is an important component of the Town Centre Masterplan currently under development.

2.13 The Commercial Case of the OBC references the CWAC's adopted Local Plan which identifies the need for a further 22,000 new dwellings and 365ha of new employment land to be delivered across the borough between 2010 and 2030. Reference is made to the planned growth of Ellesmere Port by 2030 including 13,200 gross jobs, 3,100 new homes, providing a total GVA contribution of £660m. The delivery of the Hub and subsequent relocation of public services will release surplus sites for re-development to support this growth agenda. This narrative could be strengthened in the Strategic Case.

- 2.14 Policy synergies between the Hub project and local partners are summarised in Table 4, which includes Cheshire West and Chester; NHS West Cheshire Clinical Commissioning Group; Cheshire & Wirral Partnership NHS Foundation Trust; NHS Property Services Ltd; ForHousing; and Department of Work and Pensions. There is a strong commitment across all partners on collaborative working, supporting economic growth, and transforming service delivery to improve quality and reduce costs.

### **Market Failure Case**

- 2.15 Valid market failure arguments are presented and can be summarised as follows.

#### **Increased austerity measures leading to public sector agencies facing unprecedented budget cuts against a backdrop of increased service demand**

- 2.16 There are organisational imperatives to rationalise, co-locate and share space in order to save money. The efficiencies created by the shared services hub will help to mitigate the impact of budget cuts on the services delivered to local people.

#### **Ageing building stock**

- 2.17 Public sector provision has developed over time in a variety of locations in Ellesmere Port in stand-alone premises. Many of these are expensive to operate and no longer fit for purpose to meet current and future rising service demands. The OBC outlines each of the existing arrangements and the current building issues faced. Furthermore, the geographical spread of these premises makes it difficult to be responsive to client needs which can be multi-faceted.
- 2.18 The project will provide modern purpose-built premises which will be more efficient to operate, and co-located services will be more responsive to client needs.

#### **Viability Gap**

- 2.19 The scheme's partners (CCG, CWP, DWP and local GPs) are unable to access capital funding to create a more fit for purpose estate.
- 2.20 The project will help to address this viability gap by providing a funding solution that will deliver modern premises which can meet partner service and spending objectives, whilst holding rental levels in line with the wider property market in Ellesmere Port and similar clinical and office accommodation.

### **Barriers to communication and information sharing**

- 2.21 The business case draws on evidence from Serious Case Reviews around the country to acknowledge that the best preventative measure that all agencies can take is to remove the barriers to communication and information sharing. Structuring working practices and routine around the customer leads to greatly improved service outcomes.
- 2.22 The project will support service integration, re-design and transformation to improve the service experience for the customer and deliver additional revenue savings for partners.

### **Community satisfaction with important public services needs to be addressed**

- 2.23 A community consultation exercise was held in 2015 where the importance and satisfaction of public services was considered. The consultation highlighted that bringing public services together could significantly improve satisfaction with public sector service delivery in Ellesmere Port.
- 2.24 The Business Case clearly establishes that the existing arrangements are lacking in both efficiency and effectiveness and fail to meet the spending objectives established by the ONE Public Estate programme; V&SF objectives; or service objectives.

### **Market Demand**

- 2.25 Demand for the project has been considered from a demand (user) and supply (service provider) perspective.

### **Service Provider Perspective**

- 2.26 Demand for the project has been ascertained from each public-sector partner's service and spending objectives as derived from national, regional and local business strategies outlined in the strategic case and then explored through interviews and questionnaires with partners. Table 5 in the OBC demonstrates a strong alignment between the spending objectives of partners and the three over-riding project aims which, to reiterate, are:
- Improve local public service delivery
  - Catalyse regeneration and private sector investment
  - Support public estate efficiencies

- 2.27 The business case summarises the challenges facing each of the partner's existing buildings and concludes that the existing arrangements are lacking in efficiency and effectiveness and fail to meet the spending objectives.
- 2.28 The case for change could be strengthened for some of the sites where deficiencies (or the opportunity created by moving) is currently not noted, i.e. Kingsley Resource Centre, Stanney Lane Clinic, ForHousing).
- 2.29 The Programme Risk Register describes the ongoing testing of partner space requirements and cost assumptions which has informed the funding model, specifically the need to ensure favourable market rents which will enable partners to enter into Agreements to Lease.
- 2.30 All partners have agreed to sign a Memorandum of Understanding which will commit them to the next stage of project development. This will include an inter-agency agreement.

### User Perspective

- 2.31 The demand from customers (the community) was tested initially by a multi-faceted community consultation exercise in 2015 (Appendix M). The OBC could strengthen the narrative on the findings from the consultation exercise to highlight the market demand for the project from the community. The survey achieved a good response rate (c.21%) and was complemented by six resident focus groups. There is general support for joining some of the public services together in Ellesmere Port Town Centre. Residents were asked about the importance and satisfaction with ten aspects of their current service delivery. The biggest gaps between satisfaction and importance of public services were found to be in the following areas:
- 'Services are there when you need them', 31% gap
  - 'Services understand your needs', 28% gap
  - 'You only have to tell your story once', 35% gap
  - 'You get everything you need in once place', 30% gap
- 2.32 Over 90% of respondents thought that some (67%) or all (24%) of a list of 14 public services should be brought together in Ellesmere Port.
- 2.33 The business plan acknowledges that buy-in from the public is critical to build their understanding of the reasons for the changes. The intention is that further community engagement will take place once financial support from the Local Enterprise Partnership is secured.

- 2.34 The interaction between demand and supply could be strengthened through drawing on best practice of what shared service models elsewhere have achieved. The Ellesmere Port model is considered unique within the OPE programme, however there are applicable examples such as between local government and health which could be considered and provide a benchmark to help quantify the benefits which the Hub project will deliver.

### 3. Economic Case

- 3.1 The Economic Case quantifies and monetises all costs and benefits and makes a judgement of value for money. The economic case establishes the preferred approach based on the optimum mix of cost, benefits and mix.

#### Economic Case - Main observations:

- The Business Case provides a comprehensive set of 23 Long List Options for achieving the project objectives. The appraisers are content with the robustness and rigour of the Options Long List and the criteria that was utilised to arrive at six alternative Short List Options.
- For each of the six Short List Options, the Business Case provides a robust capital cost (see comments on Financial Case) and also includes whole life costs of the Hub building over a 30-year period.
- A comprehensive benefits assessment is also included for each of the six Short List Options and a bespoke value for money metric is established. On the basis of this metric, Option 2a (large new build on Civic Way) emerges as the Preferred Option. The appraisers agree that Option 2a presents the best value for money of the six shortlisted options.
- The business case provides a thorough assessment of risk and undertakes appropriate risk and sensitivity analysis of the preferred option.
- A positive BCR is identified of 5.67 (with construction impacts included) and 2.67 (without construction impacts included). Both suggest good value for money. The appraisal team feel the Net Present Public Benefits under-estimate the economic contribution of the wider benefits which the Hub project will catalyse.
- Wider benefits include additional business rates retained (£273,090 pa), new homes developed (with possible scenarios ranging from 75 – 170 units), and wider job creation generated directly (e.g. through a hotel development) and indirectly.
- The Hub project and the wider benefits the project will catalyse will make a positive contribution to LEP targets for new homes and job creation.

## A Credible Long List to Short List

3.2 HM Treasury guidance is clear that a long list of credible and realistic options is drawn up in order to start the process of establishing the preferred option. The critical success factors and their assessment criteria are outlined. This is the criteria against which the long list of options is considered.

Critical Success Factor	Assessment Criteria
Improve Service Delivery	Ability of option to provide an accessible and welcoming "Place Based Care" approach to integrated public-facing services (allowing for necessary sensitivities where appropriate) with adequate accessibility, and ability to provide infrastructure for digital and non-digital access.
Public and Commercial Sustainability	Ability of option to maximise regeneration and support commercial potential, town centre footfall/permeability, and provide an appropriate positive visual impact using enhanced, sustainable aesthetics and townscape planning, whilst also gaining public and political support.
Support Public Estates Efficiencies	Ability of option to provide a coordinated public estate and generate efficiencies from the colocation and sharing of facilities on a single site and supporting new ways of working, whilst also anticipating future needs.

Source: Ellesmere Port Shared Services Hub - OBC v6, Table 12, p.37

3.3 A long list was identified which consisted of 23 options, including a 'do nothing' reference case, which are summarised alongside their rationale in the business case, with supporting detail provided in Appendix D.

3.4 Appendix D:

- Describes each option in turn
- Identifies which service delivery sites are affected
- Provides brief commentary on whether the option meets critical success factors
- Identifies whether the option will result in a loss of town centre car parking; whether a temporary decant is required; whether sites will be released; and how many service delivery sites are affected

- Considers how service delivery sites will be affected by the option i.e. leaving as it is, refurbish, new build or demolish

3.5 The Business Case describes that the long list options were evaluated and scored using a qualitative assessment of viability based upon the ability to:

- Achieve the required Gross Internal Floor Area
- Allow for minimum number of staff decants
- Ability to retain and refurbish elements of the existing building that are listed as having architectural merit (the library)
- Minimise the requirement to purchase additional site areas
- Minimise fragmented building massing
- Minimise loss of car parking for the town centre

3.6 The appraisal team understand the evaluation approach was based on a judgement call on what the options could deliver against this viability criteria. This could have been strengthened by applying a numeric scoring system to the process which enable the results of the evaluation to be quantified in a more rigorous manner and captured in Appendix D and cross-referenced in the OBC.

3.7 The shortlisting approach resulted in the selection of six viable options.

Table 3.2 The Shortlisted Options	
Option	Description
1: Do Nothing	This option anticipates the estate remains as per current use and only backlog maintenance works occur.
2A: Large New Build on Civic Way Site	New offices and clinical areas are built as replacement for the existing Civic Way Offices, Coronation Road, and associated Partner buildings, refurbish and retain the existing library.
2B: Large New Build on Port Arcades Site	Build new offices and clinical areas as replacement for the existing Civic Way Offices, Coronation Road, and associated Partner buildings, refurbish and retain the existing library. New building will be located on the existing Port Arcades site which will be subject to site purchase.
3: Small New Build on Civic Way Site	Build new offices and clinical areas as replacement for the existing Civic Way Offices and associated Partner buildings, refurbish and retain the existing library. Continued use of Coronation Road site.

Option	Description
4: Large Refurbishment	Refurbish existing offices/library and create clinical areas as replacement for the associated Partner buildings.
5: Small Refurbishment on Civic Way Site	Refurbish existing offices/library and create clinical areas as replacement for the associated Partner buildings. Continued use of Coronation Road site.

Source: Ellesmere Port Shared Services Hub - OBC v9, p.41-46

- 3.8 The shortlist describes each option and its parameters including scope, solution, service delivery, implementation, funding, Gross Internal Floor Area, and capital cost implication. A plan of each option is provided.
- 3.9 The appraisers are content with the robustness and rigour of the Options Long List and the criteria that was utilised to arrive at six alternative Short List Options.

## Benefits Assessment

- 3.10 The benefits from the project are identified in the business case, including:
- Cash releasing benefits (Table 8) such as reduction in the number of buildings and associated costs, reduction of planned maintenance, and delivery of capital receipts
  - Financial non-cash releasing benefits (Table 9) such as operational benefits, reduced benefit dependency, contribution to net additional GVA
  - Quantifiable benefits (Table 10) such as reduction in operating costs, jobs directly safeguarded, jobs indirectly created, new residential units created
  - Non-quantifiable qualitative benefits (Table 11) such as improved quality of service delivery, improved customer satisfaction, and better quality working environment.

## Qualitative Assessment of Costs and Benefits

- 3.11 The qualitative assessment assessed all non-monetisable costs and benefits.

Qualitative Factor	Assessment Criteria
Deliverability	Extent to which the Option is deliverable and can be smoothly executed to meet the project objectives and those of the wider stakeholder programme(s).
Environment	Extent to which the Option will be secure and suitable (in accordance with legislation, statute and the approved

Qualitative Factor	Assessment Criteria
	strategies of the Stakeholders) for a period of 30 years with no need for further substantive decant or development.
Operational Efficiency	Extent to which the Option enhances the sustainability, reducing the use of resources through the creation of a more efficient (and consequently cost effective) environment.
Operational Risk / Disruption	Extent to which option reduces the risk of disruption/material failure/unexpected significant spend within the Stakeholder portfolio.
Flexibility and Adaptability	Extent to which the project creates a more flexible working environment that is more adaptable to change.

Source: Ellesmere Port Shared Services Hub - OBC v9, Table 14, p.48

3.12 Qualitative benefits were weighted against the critical success factors (improve service delivery; public and commercial sustainability; and support public estate efficiencies), and the rationale for weighting was provided. Each qualitative factor was provided with a scoring guidance which was then applied to each option. The scoring rationale and total score when weighting was taken into consideration was then set out in Table 22 of the OBC. The results of the qualitative benefits appraisal were:

- 1) Option 2A: Large New Build (Civic Way) = 89.6%
- 2) Option 2B: Large New Build (Port Arcades) = 84.2%
- 3) Option 3: Small New Build (Coronation Road) = 77.8%
- 4) Option 4: Large Refurb = 49.6%
- 5) Option 5: Small Refurbishment (Coronation Road) = 37.8%
- 6) Option 1: Do Nothing = 21.3%

#### Quantitative Assessment of Costs

3.13 Capital *and* operational costs have been estimated by independent cost consultants Gleeds in accordance with the scopes, designs and specifications issued by the designers:

- **CWaC:** Delivery Authority and Project Brief
- **Gleeds Cost Management:** Capital Costs
- **Gleeds Advisory:** Whole Life Costs
- **Pick Everard:** Masterplanning and Architectural

- **AECOM: Structural and Services Engineering**

3.14 Capital construction costs for new build and refurbishment have been derived from data provided by RICS BCIS Cost Category 320: Offices rebased to the North West Region for comparison purposes; Gleeds internal cost database and benchmark historical cost data of projects, and Gleeds internal cost data of similar current live projects.

3.15 Each option identifies the real cost of each option taking into account capital, resource, revenue, risk and optimism bias. Income secured is then taken into account to provide a total figure. The NPV assessment uses a discount rate of 3.5% per annum, in line with Green Book guidance and applies this to a 30-year period. All Life Cycle Costs have been calculated by Gleeds in accordance with BS-ISO15686:5(2017) to include:

- Capital Costs – as set out above
- Maintenance Costs: Cyclic, Planned and Reactive Maintenance
- Operational Costs: Soft Facilities Management and Energy Usage
- Operational Costs: Other facilities costs incurred by Partners
- Income: Rental income received from Partners

3.16 Appendix E details the cost assumptions associated with the operational costs as part of the NPV model.

Table 3.4 Quantitative Assessment of Costs		
Option	Net Present Cost (£)	Rank
1: Do Nothing	£34,861,670	1
2A: Large New Build (Civic Way)	£48,139,936	4
2B: Large New Build (Port Arcades)	£53,950, 548	6
3: Small New Build	£47,335,600	2
4: Large Refurbishment	£50,898,900	5
5: Small Refurbishment	£47,800,125	3

Source: Ellesmere Port Shared Services Hub - OBC v9, Table 18, p.53

3.17 The 'Do Nothing' option is the minimum cost option, whilst Option 2B is the most expensive.

3.18 The Preferred Option is then selected on the basis of a bespoke Value for Money calculation. The VfM calculation puts a £m value on quality (expressed as a % of £10m), and then calculates the VfM score dividing the NPV cost by quality.

Table 3.5 Economic Appraisal Results						
	Option 1	Option 2A	Option 2B	Option 3	Option4	Option 5
Quantitative Cost Appraisal (NPV)	£34.86m	£48.1m	£53.95m	£47.34m	£50.90m	£47.80m
Qualitative Benefit Appraisal	21.3%	89.6%	84.2%	77.8%	49.6%	37.8%
Value for Money	16.4	5.4	6.4	6.1	10.3	12.6
<b>Overall Ranking</b>	<b>6</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>4</b>	<b>5</b>

Source: Ellesmere Port Shared Services Hub - OBC v6, Table 32, p.71

- 3.19 The preferred option is 2A on the basis that it has the lowest value for money factor i.e. the amount of money spent for the quality achieved.

### Risk and Sensitivity Analysis of the Preferred Option

- 3.20 The Business Case provides a thorough assessment of risk and assigns scores to these. The risks are taken into account within the capital costs as follows:

- Construction and design risk – the cost plan includes 10% for these risks, which include activities arising from unforeseen conditions.
- Optimism bias adjustment – the applicant takes into account optimum bias to test against the risk of increased project costs. The OBC identifies an optimum bias rate of 24% as identified as the upper limit by The Green Book on capital expenditure on standard buildings. This is then reduced after taking into account the key risks and the degree to which they can be mitigated to 18%.

- 3.21 Sensitivity analysis was carried out to test the impact of a +/-10% adjustment to:

- Capital costs and construction related costs
- Operational costs
- Rental income
- New build Gross Internal Floor Areas

- 3.22 All of these tests revealed that the ranks associated with the preferred way forward (as shown in Table 3.5) did not change, although some adjustments to the NPV were apparent.

## Economic Benefit Cost Ratio (BCR)

3.23 The Benefit Cost Ratio of the preferred option is also considered in the Business Case. An economic impact modelling tool considers the impacts of the Hub project in Appendix I. The Economic Impact tool identifies the net public benefits from the project based on job creation, namely:

- 1) **Temporary construction jobs.** The Hub project will create 322 net additional FTEs (average) over the build period, which will create £33.8m in GVA (related to construction employment). This will be realised in Year 1 and 2 of the scheme during the build period.
- 2) **Operational jobs.** The Hub project will house 690 FTE jobs. However, it is assumed by the applicant that only 5% of these can be claimed as either additional or safeguarded i.e. 35 FTEs. The project will generate an additional £49.8m in GVA (related to the 5% operational employment) over the 30-year lifetime. This is considered prudent, and it is considered that net additional job creation is likely to be much higher if aspirations are realised to relocate 70 additional health staff into Ellesmere Port as well as several hundred FTE posts that the Council plans to transfer into the town. Because these proposals are likely, but not certain, they have not been taken into account in the BCR calculation.

3.24 The assumptions made by the model in moving from gross to net related to leakage, multipliers, displacement and persistence are not clear and require reference within the business case and Appendix I.

3.25 Taking a discount factor of 3.5% into account, the combined total public benefit of the project is estimated to be £62.75m. These are divided by the net present budget impact (cost saving) of the project which sum to -£11.06m. This gives a **benefit cost ratio of 5.67**.

3.26 The appraisal team have some reservations about the BCR calculation as it includes temporary construction benefits and also anticipates the benefits of the operational jobs will persist over a 30-year period. Removing the construction related jobs would provide a net present public benefit of £29.5m. Applying the same cost saving would provide a BCR of 2.67. **Both examples illustrate a positive BCR and suggest good value for money.**

### Other Benefit Streams

3.27 The appraisal team feel it is appropriate that the temporary construction benefits of the project are captured under 'other benefit streams'.

3.28 Furthermore, the business case makes reference to the additional business rates retained as a result of the project: in total £273,090 per annum is anticipated to be generated in business rates through the project.

### Wider Catalytic Benefits

3.29 It is appropriate to consider the wider catalytic benefits generated by the Hub project in the economic impact assessment. The Hub project will result in vacated sites which can then be redeveloped for other uses. These benefits could include housing, employment, New Homes Bonus and Business Rates benefits. These benefits will not be secured until the second phase of the development and have been excluded from the BCR calculation at this stage. The future of the surplus sites will be determined by the recently commissioned masterplanning exercise.

Table 3.6 Opportunity Sites – Potential Uses

Site	Potential Uses
Coronation Road Cluster	<ul style="list-style-type: none"> <li>• If all sites in the cluster were secured, it could be possible to deliver a total of 121 units of mixed type</li> <li>• If all sites with the exception of the Ambulance and Fire Services plots were secured, it could be possible to deliver up to 110 units of mixed type</li> </ul>
Current CWAC Civic Way Office Building	<ul style="list-style-type: none"> <li>• Refurbished for residential uses (48 units)</li> <li>• Or refurbished as a hotel</li> <li>• Or redevelopment for residential uses</li> </ul>
Old Hall Surgery	<ul style="list-style-type: none"> <li>• Privately owned by GPs</li> <li>• Possible to be converted back into two residential dwellings</li> </ul>
York Road Group Practices	<ul style="list-style-type: none"> <li>• Currently leased from the Port Arcades</li> <li>• Options currently unknown</li> </ul>
ForHousing and Job Centre Plus	<ul style="list-style-type: none"> <li>• Currently leased from the Port Arcades</li> <li>• Possible conversion to residential</li> </ul>

Source: Ellesmere Port Shared Services Hub - OBC v9, p.77-80

3.30 Appendix I considers the economic impact of delivering new housing through the Coronation Road cluster. Temporary construction impacts are identified as delivering £8.2m in net GVA benefits, with a further £11.47m in net GVA generated from ongoing economic impacts. Together, this generates a further £14.2m in net present public benefits.

Taking the preferred option and redevelopment of Coronation Road together with the Hub project to consider the impact on the BCR, it is identified that the Net Present Public Benefits including construction is £79.96m. The Net Present Budget Impact remains the same at £-11.06, delivering a BCR of 6.96. Removing the temporary construction related impacts will deliver £36.11m in Net Present Public Benefits and a BCR of 3.27. **This illustrates a positive BCR and represents good value for money.** Given the number of other surplus sites which are catalysed by the Hub project but haven't been taken into account in this calculation, we anticipate the impact will be much greater.

## 4. Financial Case

- 4.1 The Financial Case is intended to provide reassurance on the appropriateness of predicted costs, that other sources of funding have been fully explored and that all sources of assumed other funding will materialise.

### Main observations:

- The capital costs for the creation of the Hub, refurbishment of the library building and completing the development agreement are estimated at £31.033m.
- The appraisal team are satisfied that the costs have been provided by independent QS advisors and contingencies / optimism bias are appropriately accounted for.
- The funding mix equates to £31.090m and is based on LEP Growth Deal funding (£8.3m), CWAC Capital funding (£7m) and development funding of £15.79m from an investment partner in return for an entitlement to a future rental income flow. More detail is required on how the investment partner is going to be secured, and any risk and mitigation associated with this.
- On the basis of the information provided, the appraisal team are satisfied that it is unlikely there will be any additional development value from the release of surplus sites which could contribute to the funding of the Hub project. This should be closely monitored by the LEP and any additional receipts potentially utilised to reduce the net cost to the LEP.
- The analysis of Income and Expenditure illustrates that the preferred option is affordable to the Council. Other partners do not have capital funding available to contribute, but contribute to the costs of the Hub by paying an annual rent. The LEP funding will enable the rents to be affordable to partners and therefore ensure the Hub is fully utilised. Long term leases will be agreed. The appraisal team are satisfied with the sensitivity tests undertaken and the outcome of these.

### Capital Costs

- 4.2 Appendix G provides a detailed breakdown of the assumptions used to derive the cost figures for each option. The Business Plan identifies a total project cost of £28,843,126 for the preferred option of a large new build on Civic Way. This includes an allowance for contingency and risk.

Table 4.1 Capital Cost Summary

Capital Cost	Preferred Option
Capital build including external works, fees and allowances @ 12%, inflation @ 7.75% and design and construction risk @ 10%. Allowances are also made for known site specific costs e.g. site acquisition, Section 106/278 works etc	£20,379,844.65
Fit out fees, inflation @ 7.75% and design and construction risk @ 10%	£4,063,482.65
Allowance for Optimism Bias @ 18%	£4,399,798.92
<b>Total</b>	<b>£28,843,126.22</b>

Source: Appendix G, Ellesmere Port Shared Services Hub – OBC v9, Gleeds

- 4.3 These costs do not include VAT as the lead organisation for procurement will be Cheshire West and Chester Council. No land acquisition costs are required as the site is already in Cheshire West and Chester Council ownership.
- 4.4 In addition to the capital works cost, the financial appraisal reflects on other upfront costs incurred such as relocation costs, development fees and stamp duty, future operating/maintenance costs and any capital financing costs. These upfront investment costs are identified as £2,190m.
- 4.5 Taken together, the costs incurred in the creation of the hub, refurbishment of the library building and completing the development agreement will result in costs of **£31.033m**.
- 4.6 The costs are based on the preferred option's architectural scheme developed in conjunction with Perfect Circle, a joint venture between Pick Everard, Gleeds and AECOM. The appraisal team are satisfied that the costs have been provided by independent QS advisors and contingencies have been considered.

## Capital Funding Mix

- 4.7 The funding mix equates to £31.090m and is based on:
- LEP Growth Deal funding – Round 2 @ £8.3m
  - CWAC Capital (Borrowing) @ £7m
  - Development Funding @ £15.79m
- 4.8 The financial model assumes that an investment partner will be willing to fund upfront costs totalling £15.8m in return to an entitlement to a future rental income flow. More detail is required on how the investment partner is going to be secured (and the risk and mitigation strategy required).

- 4.9 The phasing of capital funding is not provided. Clarification is required on when funding is required over the construction period. We understand the LEP funding will be profiled to spend at the front-end of the project to ensure spend by the March 2021 deadline.
- 4.10 The appraisal has sought clarification on what receipts could be captured from the development of newly vacated sites as a result of the Hub. There are a number of sites that could theoretically yield receipts (for example the Coronation Road cluster and the existing Civic Way Council office building) that could be used to reduce the net ask for the LEP via some clawback arrangement.
- 4.11 Our investigations show that some of these surplus sites are dispersed and relatively small in size and therefore offer limited redevelopment value. Others are larger in size or more closely located to enable wider site assembly and therefore generate greater theoretical redevelopment value. However, of the larger sites:
- The Civic Way office building has the potential to be refurbished for other uses (e.g. residential, hotel, etc.) or demolished to provide a wider redevelopment site potentially including adjacent space for residential or other uses. Initial outline work indicates that the current building could be redeveloped to provide approximately 48 residential units including studio, one bedroomed and two bedroomed apartments. Whilst initial soft market testing has focussed on the opportunity to deliver residential accommodation, one provider has indicated a potential market for a hotel development in this area. However, due to the estimated costs of demolition (£0.6m), there is not expected to be capital value in the sale of the site.
  - Sites released in the Coronation Road cluster include Cherrybank Resource Centre, Kingsley Resource Centre, Coronation Road Offices and Stanney Lane Clinic. These sit in close proximity to the former Council-owned EPIC site (now demolished) and Kidzone site (to be demolished). Other sites in Council ownership and potentially available for development as part of a wider site assembly are Oasis Youth Club, The Park Family Centre and The Coronation Centre. CW&C and the EPDB commissioned Mott MacDonald in 2017 to evaluate the sites independently and as a cluster and advise if there was a positive land value for development of different uses. We have been provided with a copy of the Mott MacDonald appraisal findings, and they confirm the fact that there is no residual land value on these sites after demolition and acquisition costs are factored in.

- 4.12 On the basis of the information we have received we do not believe there will be potential for additional development value to be captured from the release to market of surplus sites. This should, however, be monitored by the LEP and any additional receipts potentially utilised to reduce the net cost to the LEP of the Hub project.

## Operational Costs & Revenue

- 4.13 The applicant considers the projected financial costs of the Hub over the first 35 years of its life. These costs include the costs of operating the facilities, the rental commitment to the investment partner and the financing and interest costs arising from Council's capital contributions. Appendix I sets out the profit and loss statement, the summary Income and Expenditure, cashflow, and balance sheet. This is projected over a 36-year period (the head lease period) to 2055.
- 4.14 The net impact on I&E shows that the net cost of the development to the Council over the time period is £8.8m. CWAC have set aside a funding allowance of £12.040m for the cost of financing and repaying the £7m capital investment. This shows the scheme is currently within the Council's affordability criteria.

	Delivery Phase £	Yr 1-30 Operations £	Yr 31-35 Operations £	Total £
Total Costs from New Development	516,548	87,073,130	19,956,471	107,546,148
Revenue Benefits from New Development	-403,433	-80,378,635	-17,919,485	-98,701,553
<b>Net Impact on I&amp;E</b>	<b>113,115</b>	<b>6,694,494</b>	<b>2,036,986</b>	<b>8,844,596</b>
Funding Allowance within CWAC	0	10,920,000	1,120,000	12,040,000

Source: Ellesmere Port Shared Services Hub – OBC v9, Table 42, p.97

- 4.15 The balance sheet consequences of the development are considered. Key points include:
- The Hub building would be an asset on the Council's balance sheet from Day 1 although the Council will not have legal ownership of the asset for the first 35 years of its life, the head lease will transfer the majority of risks, rewards and economic value of ownership
  - The liabilities arising from the head lease and the initial borrowing cost to the Council will be fully repaid within the first 35 years

- The net cash loss and utilisation of reserves reflects the Council's contribution to the costs of the development. In practice, these impacts will be moderated as the ongoing costs of the development are built into the Council's budget and it raises sufficient funding from its tax raising powers to meet these costs.

4.16 The analysis shows that **the preferred option is affordable to the Council**. This illustrates viability of the project from the lead agent's perspective. However, the project is also dependent on other partners being able to fund their own contributions. Other occupants will contribute to the costs of the Hub by paying an annual rent based upon their usage of the building.

4.17 The LEP funding enables the rents for the tenants who do not have capital funds available (CCG, CWP, DWP and local GPs) to be held in line with the wider property market in Ellesmere Port and similar clinical and office accommodation. Market rates have been provided by specialist property consultants JLL, and indicate a composite rate for the mix of health accommodation at £16.29 psf. This is a favourable rate when compared to similar schemes elsewhere which range from £18-£19 psf.

4.18 The funding model assumes that an investment partner will be willing to fund upfront costs totalling £15.8m in return for an entitlement to a future rental income flow. A yield of 3.22% over 35 years is assumed based on advice from JLL. The project is expected to be of commercial interest to the private sector due to the strength of covenant offered by the public sector partners as long term occupiers of the Hub.

## Sensitivity Testing

4.19 The business case provides sensitivity tests to determine how resilient the scheme is under scenarios such as:

- Increases in the capital cost of building the hub
- Increases in yield expectations
- Reductions in recoverable rental income

4.20 Each scenario is tested to check whether the scheme remains affordable within the budgetary contribution set aside by CWAC, i.e. a net revenue contribution of £12m over the next 35 years. The findings from each test are detailed in the business case. In summary, this shows:

- The project's base case assumed capital costs already include a number of allowances for potential cost increases including a 7.75% allowance for inflation, a 10% general contingency and a further 18% for optimism bias. If costs were to increase beyond those identified in the base case, the test shows that the scheme remains affordable with a 5% increase in capital costs, but not 10% and the scheme would need to seek additional funding. However, given the level of contingency already within the cost estimates it is considered that this is reasonable.
- The project depends on an injection of £15.79m from a third party funder to support initial construction costs, and this funder will expect to make a return on that investment. This is modelled at 3.22% which is based on expert advice. However, the market for such investments is volatile and may shift. Two alternative yields were modelled: 3.5% and 3.75%. The tests show that increases of more than 0.25% will make the project unaffordable against the criteria used, and the project would need to be delivered under an alternative funding model e.g a traditional PWLB funded approach.
- The project's financial viability is dependent on the rental income contributions from the occupants of the new hub. To ensure the hub is fully utilised, rental levels have been deliberately capped to ensure they are in line with the wider market for such accommodation and remain affordable. Long term leases will be agreed. If there is a need to reduce rental expectations, it will place additional financial pressure on the scheme. The scheme is relatively robust and remains viable with a reduction in income of up to 12%.

4.21 The appraisal team are satisfied with the sensitivity tests undertaken and the outcome of these.

## 5. Commercial Case

- 5.1 The commercial case of the Five Case Model is intended to provide reassurance that the optimal procurement strategy is in place and will be utilised.

### Main Observations

- Cheshire West and Chester Council will be the accountable body for the project. They have a track record of procuring similar projects.
- OJEU tendering procedures will be followed.
- The appraisers are satisfied with the procurement route. Cross-referencing to relevant procurement policies and how the project will secure wider social, economic and environmental benefits through the procurement process will further strengthen the commercial case.

### Delivery Route

- 5.2 The Commercial Case identifies two delivery options for the project:
- Self-Develop: Under this route the Council will take full responsibility for appointing a design team, developing the design, submitting a planning application and appointing a build contractor.
  - Developer Led: a private sector developer partner is secured to deliver and manage the scheme. The Council and other scheme partners become tenants.
- 5.3 The pros and cons of these are considered at a high level and conclude the Self-Develop route is the preferential option on the basis that it provides the Council with the:
- Ability to retain control of the design to meet specific accommodation requirements of Hub partners;
  - Ability to retain full Council ownership of the site;
  - Ability to secure gap funding from public sector sources; and
  - Procure the scheme faster to meet LEP timescales

- 5.4 The Council will act as the lead organisation for the scheme as it progresses. The Council are experienced in delivering large scale capital projects which provides both transferable skills and familiarity with the requirements of public sector funding, such as Storyhouse in Chester, and Baron’s Quay in Northwich. In Ellesmere Port the Council has already led the regeneration of a number of major sites and is working with the LEP to bring forward recently designated Enterprise Zone sites.
- 5.5 A dedicated Programme Management Office established under the Council’s Major Projects Team will project manage the design and construction process and procure a Contractor via a fully advertised OJEU compliant procurement route in accordance with the Council’s Finance and Contract Procedure Rules.

## Key Milestones

- 5.6 Key milestones have been identified for the delivery of the scheme.

Task	Start	Finish
Contractor Procurement (1 <sup>st</sup> Stage)	Apr-18	Dec-18
Completion of RIBA Stage 2 work for Reference Scheme	Apr-18	Jul-18
RIBA Stage 3 - Design	Jul-18	Oct-18
RIBA Stage 3 - Planning Submission	Sep-18	Nov-18
RIBA Stage 3 - Planning Approval	Nov-18	Feb-19
RIBA Stage 4 and Construction Procurement	Feb-19	Jul-19
RIBA Stage 5 - Construction	Jul-19	Apr-21
Occupancy	Apr-21	
Refurbishment of Library Building	Apr-21	Sep-21
Site Assembly and Redevelopment of Surplus Sites	Sep-18	tbc

Source: Ellesmere Port Shared Services Hub – OBC v9, p.86

## Procurement Strategy

- 5.7 The procurement process is outlined in the OBC, and a timetable is provided across two stages.

### First Stage Contractor Procurement

- 5.8 This is anticipated to take place between April 2018 and January 2019 and will include:

- Production and issue of a Selection Questionnaire to establish a shortlist of suitable contractor candidates
- Development of the design through RIBA Stage 3
- Issue of planning application from RIBA Stage 3
- Development of a 1<sup>st</sup> Stage Tender based on Fixed Contractor Preliminaries, percentage overhead and profit on net supply chain costs, and fixed price for 1<sup>st</sup> Stage procurement and planning

### **Second Stage Contractor Procurement**

5.9 This is anticipated to take place between February 2019 and August 2019 and will include:

- Commencement of 2<sup>nd</sup> Stage (post planning) with the preferred contractor through 2<sup>nd</sup> Stage Tender and RIBA Stage 4 to deliver a fixed tender
- Site mobilisation and construction.

5.10 The Council will:

- Enter into the contract with the contractor
- Take responsibility for delivering the project
- Take responsibility for instructing the design team
- Take responsibility for managing and operating the scheme on completion
- Take responsibility for revenue income and costs and the collection from other parties of any contributions to these costs

5.11 It is noted that the procurement process will be sufficiently broad to cover other re-development opportunities arising from the town centre master-planning exercise.

5.12 No reference is made to the Funding Agreement between Council and LEP, and how procurement will be in accordance with LEP Growth Deal Procurement Guidance. Other relevant procurement policies should be cited, e.g. environmental policies. It is noted that the Social Value Act is not referred to in the OBC and the project does not articulate how they will secure wider social, economic and environmental benefits through their procurement process.

## Specification

- 5.13 The building will be constructed to Grade A specification. No reference is made to compliance with BREEAM standards which would strengthen the sustainability credentials of the project.

## Asset Management

- 5.14 The Council owns the freehold of the hub site. Under the proposed development deal, the Council will take on the responsibility as Head Tenant within the new Hub, and retain a reversionary interest for the site after a 35-year term. Other occupying partners will become Sub Tenants of the Council.
- 5.15 Once occupied, the Hub will be serviced and maintained under the Council's Facilities Management Joint Venture with Qwest, and funded through a service charge agreed with each tenant.

## 6. Management Case

- 6.1 The Management Case is designed to show that the Preferred Option is capable of being delivered successfully, in accordance with recognised best practice. It also requires arrangement for monitoring and evaluation to be set out.

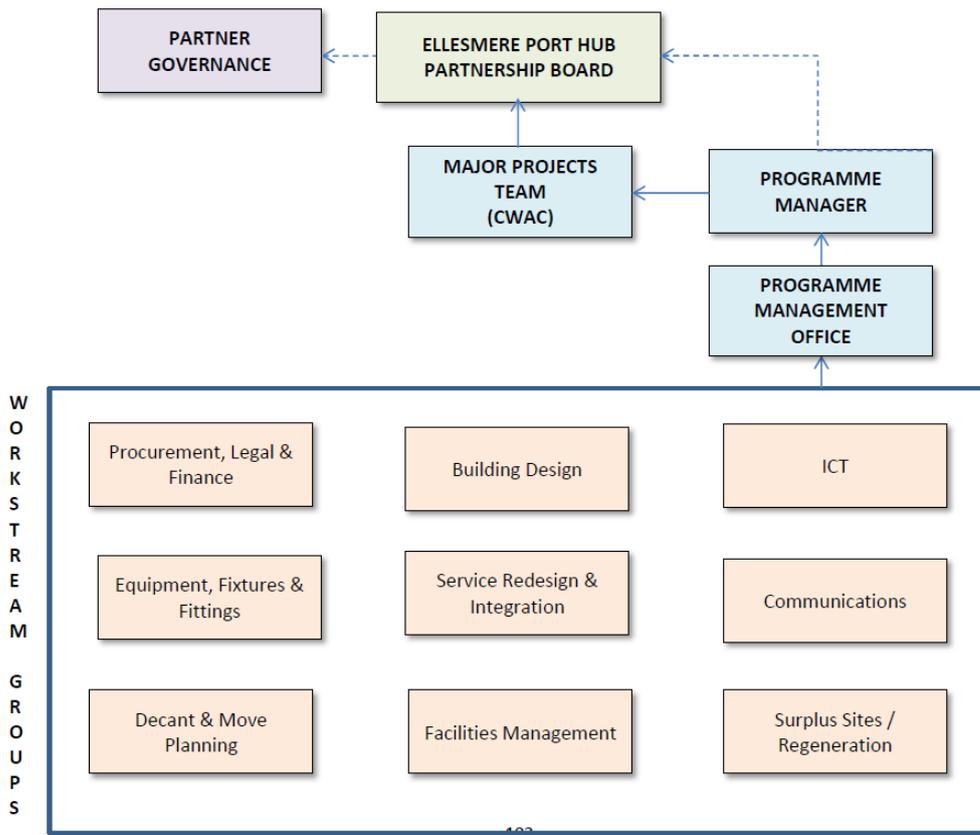
### Main Observations

- The OBC sets out a coherent approach to project management during the capital build and operational phase
- Cheshire West and Chester Council as landowner and Head Tenant will be the Lead Sponsor for the project. CWAC has a strong track record of delivering major projects
- A comprehensive risk register is provided, and nine strategic risks are identified and described. It is the appraiser's view that greater consideration should be paid to the risks associated with realising the wider benefits of the project and appropriate mitigation, in recognition that the LEP funding is helping to unlock these.
- A set of project benefits is provided. However there is a need to provide greater clarity on outputs attributable to LEP Growth Deal funding.

### Governance

- 6.2 The Business Plan outlines a clear leadership and management structure for the development and management of the scheme.

Figure 6.1 Leadership and Management Structure



Source: Ellesmere Port Shared Services Hub – OBC v9, p.102

- 6.3 The Ellesmere Port Hub Partnership Board will provide overall strategic oversight and direction to the project in compliance with an agreed Terms of Reference. The Board will be drawn from representatives of the partner organisations and will report directly to their respective governing bodies. The Council’s Director of Place Commissioning and Commercial Management will chair the Board. The role of the LEP in this governance structure should be articulated to ensure that the LEP has a role in strategic decision-making, particularly in relation to the wider benefits the project will realise. For example, should the LEP be part of the Surplus Sites/Regeneration Working Group?
- 6.4 Day-to-day development and implementation of the project will be done by the Council’s Major Project’s Team through a dedicated Programme Management Office. They will report progress to the Ellesmere Port Hub Partnership Board as necessary.
- 6.5 Workstream Groups shall be established as and when to inform and deliver specific aspects of the wider scheme. A number of key Workstream Groups have been identified as identified in Figure 6.1 and their purpose and responsibilities established in the OBC.

- 6.6 A Communications and Consultation Plan has been developed to guide the outcomes and objectives of the scheme (Appendix L) in recognition of the importance of effective communication in realising the benefits of the shared services hub.

## **Risk and Risk Ownership**

- 6.7 The Programme Management Office will be responsible for overseeing the management of risk. Risks identified to date have been compiled into a comprehensive Programme Risk Register in Appendix C. This identifies the different types of risk identified by partners and provides a scoring system considering how likely it is that the risk will occur and what is the impact if the risk occurs to identify a total risk rating. The OBC identifies 9 most significant project risks at this time:

- 1) LGF funding not secured. In mitigation, the Council has been in dialogue with the LEP for some time, and partner commitment to the principles of the scheme has been secured through a Memorandum of Understanding. The Town Centre Masterplan will support identification of wider regeneration outcomes.
- 2) Future occupancy of partners. In mitigation, the financial case is built on favourable market rents which should enable partners to enter into Agreements to Lease.
- 3) Investor interest to meet the funding shortfall is not forthcoming. In mitigation, the strength of covenant offered by the Council as Head Tenant should make this an attractive and financially viable proposition to any private sector investor.
- 4) Project is not affordable. In mitigation, there has been rigorous testing of partner space requirements and cost assumptions. This could be further strengthened by reference to the risk and contingency built into the funding model.
- 5) Stakeholders object to the project. In mitigation, initial consultation in 2015 has been favourable. Further engagement will be achieved through the delivery of the Consultation and Communications Plan.
- 6) Project costs exceed expectations. In mitigation, procurement of the Contractor will be set within a cost envelope based on the level of capital investment secured from the LEP and Council and income to be achieved through rent.

- 7) Environmental issues delay/constrain delivery. In mitigation, initial desk-based work has been undertaken to inform site delivery and this has informed the cost plan. The site is a former greenfield so there are unlikely to be major ground condition issues.
- 8) CWAC funding not secured. In mitigation, a capital allocation has been secured and is being released to support the design development process.
- 9) Weak project management causes delays. In mitigation, the Council is highly experienced in the delivery of large scale capital schemes.

6.8 From a LEP perspective, they are going to be particularly interested in the risks associated with delivering the wider regeneration benefits. These are considered in the risk register, but there is not a strong narrative around these in the OBC. It is recommended that these risks and mitigation strategies are considered in more detail within the OBC.

### **Benefit Realisation and link to the M&E Plan**

6.9 A wide range of benefits are forecast to be generated through the project. The process for capturing the benefits is outlined. An initial Benefits Realisation Register has been compiled and is provided in Appendix N. This includes cash releasing benefits, financial non-cash releasing benefits, non-quantifiable (qualitative) benefits.

6.10 The register:

- confirms the benefits to date that are expected to arise from the project;
- identifies the measure/indicators that will be used to assess whether or not the expected benefits are realised;
- sets the target measure for each expected benefit to be achieved through implementation of the project;
- sets out the timescales for delivery of the expected benefits; and
- identifies the individual responsible for delivering each benefit.

6.11 The register would be further strengthened by identifying the beneficiary groups for each benefit.

- 6.12 There is a need to provide greater clarity on outputs attributable to LEP Growth Deal funding, when they will be delivered, and what is the assumed benefit realisation (year). Specifically, to what extent the LGF investment will help to accelerate the delivery of additional homes and additional jobs.
- 6.13 This should be supported by a Monitoring and Evaluation Plan which identifies the key indicators, sources, data collection date and responsibility. Outputs need to be clearly attributed to Growth Deal. The Appraisal team note the Monitoring and Evaluation Plan set out in the LEP Accountability Framework and the intention that the LEP and BEIS to evaluate those projects which offer the greatest opportunity for others to gain learning from, i.e. innovative or 'non-standard' projects. The Hub project needs to commit funding to support the monitoring and evaluation of the project which is proportionate to the scale of the project.
- 6.14 Reference is made to maximising employment benefits for local people as far as possible. This could be strengthened by referencing appropriate procurement policies which will be implemented.

## 7. Conclusions

- 7.1 The Ellesmere Port Public Sector Hub project is a £31m project seeking £8.3m of Local Growth Funding from Cheshire and Warrington Local Enterprise Partnership (C&W LEP). The project is part of the national 'One Public Estate' (OPE) programme and seeks to transform the delivery of public services through co-location to provide operational efficiencies and safeguard the future of local public service delivery in Ellesmere Port. By bringing public sector organisations together, surplus sites will be released for redevelopment for other commercial and residential uses which will contribute to the wider regeneration of Ellesmere Port town centre.
- 7.2 The project will provide a purpose-built Hub shared by public sector organisations including Cheshire West and Chester local authority, housing, health and Department of Work and Pensions services. The Hub will include a Customer Service Centre; Library Service; Job Centre; Workzone; Register Office; Pharmacy; two GP surgeries; local community health services; and integrated back-office functions.
- 7.3 The Hub will have a wider transformational impact through forming a new striking centrepiece building at the heart of Ellesmere Port that will change the image and profile of the town, and as a result change investor perceptions.

### Strategic Case

- 7.4 The project has excellent strategic fit with the prevailing policy environment and is located within the Ellesmere Port priority action area as noted in the Cheshire and Warrington Strategic Economic Plan (SEP). The delivery of the Hub will release surplus sites for redevelopment which will contribute towards job creation and new home targets established in the revised SEP. The delivery of the Hub project is identified as a key catalyst for change and priority project in the latest review of the Ellesmere Port Vision and Strategic Framework and will be a key component of the new Town Centre Masterplan under development. It will secure long-term public sector jobs in the town centre, improve service delivery, create additional footfall in the retail centre, and release a number of sites for development.

## Economic Case

- 7.5 The Business Case provides a comprehensive set of 23 Long List Options for achieving the project objectives. The appraisers are content with the robustness and rigour of the Options Long List and the criteria that was utilised to arrive at six alternative Short List Options.
- 7.6 For each of the six Short List Options, the Business Case provides a robust capital cost (see comments on Financial Case) and also includes whole life costs of the Hub building over a 30-year period.
- 7.7 A comprehensive benefits assessment is also included for each of the six Short List Options and a bespoke value for money metric is established. On the basis of this metric, Option 2a (large new build on Civic Way) emerges as the Preferred Option. The appraisers agree that Option 2a presents the best value for money of the six shortlisted options.
- 7.8 The business case provides a thorough assessment of risk and undertakes appropriate risk and sensitivity analysis of the preferred option.
- 7.9 A positive BCR is identified of 5.67 (with construction impacts included) and 2.67 (without construction impacts included). Both suggest good value for money.
- 7.10 The appraisal team feel the Net Present Public Benefits under-estimate the economic contribution of the wider benefits which the Hub project will catalyse. The current masterplanning exercise will inform a more robust assessment of the wider benefits. Wider benefits include additional business rates retained (£273,090 pa), new homes developed (with possible scenarios ranging from 75 – 170 units), and wider job creation generated directly (e.g. through a hotel development) and indirectly.
- 7.11 The Hub project and the wider benefits the project will catalyse will make a positive contribution to LEP targets for new homes and job creation.

## Financial Case

- 7.12 The capital costs for the creation of the Hub, refurbishment of the library building and completing the development agreement are estimated at £31.033m. The appraisal team are satisfied that the costs have been provided by independent QS advisors and contingencies / optimism bias are appropriately accounted for.

- 7.13 The funding mix equates to £31.090m and is based on LEP Growth Deal funding (£8.3m), CWAC Capital funding (£7m) and development funding of £15.79m from an investment partner in return for an entitlement to a future rental income flow. More detail is required on how the investment partner is going to be secured, and any risk and mitigation associated with this.
- 7.14 On the basis of the information provided, the appraisal team are satisfied that it is unlikely there will be any additional development value from the release of surplus sites which could contribute to the funding of the Hub project. This should be closely monitored by the LEP and any additional receipts potentially utilised to reduce the net cost to the LEP.
- 7.15 The analysis of Income and Expenditure illustrates that the preferred option is affordable to the Council. Other partners do not have capital funding available to contribute to the capital funding mix, but will contribute to the operational costs of the Hub by paying an annual rent. The LEP funding will enable the rents to be affordable to partners and therefore ensure the Hub is fully utilised. Long term leases will be agreed. The appraisal team are satisfied with the sensitivity tests undertaken and the outcome of these.

#### **Commercial Case**

- 7.16 Cheshire West and Chester Council will be the accountable body for the project. They have a track record of procuring similar projects. OJEU tendering procedures will be followed.
- 7.17 The appraisers are satisfied with the procurement route. Cross-referencing to relevant procurement policies and how the project will secure wider social, economic and environmental benefits through the procurement process will further strengthen the commercial case.

#### **Management Case**

- 7.18 The OBC sets out a coherent approach to project management during the capital build and operational phase.
- 7.19 Cheshire West and Chester Council as landowner and Head Tenant will be the Lead Sponsor for the project. CWAC has a strong track record of delivering major projects.
- 7.20 A comprehensive risk register is provided, and nine strategic risks are identified and described. It is the appraiser's view that greater consideration should be paid to the risks associated with realising the wider benefits of the project and appropriate mitigation, in recognition that the LEP funding is helping to unlock these.

- 7.21 A set of project benefits is provided. However, there is a need to provide greater clarity on outputs attributable to LEP Growth Deal funding.

### **Overall Recommendation**

- 7.22 The project requires significant investment from the LEP.
- 7.23 The appraisal team are satisfied that the likely economic benefits from supporting this project are substantial and represent good value for money.
- 7.24 In light of the recommendations made in the appraisal report to provide further detail and clarification where necessary, the appraisers **recommend the project for LEP board approval.**
- 7.25 If the LEP Board agrees with this recommendation then we would suggest it is made conditional on the following:
- 1) Confirmation of the timetable and process for securing way a private sector developer/investor partner, and confirmation that the £15.79m of private sector development funding will be forthcoming.
  - 2) Provision of a statement on the full quantification of wider economic benefits, as soon as the current Coronation Road/ Civic Way masterplanning work is complete. We have estimated some of these wider benefits but are not yet able to develop a complete picture.
  - 3) At the same time as the above, provision of a refreshed development appraisal which confirms the absence of any land value receipts from the implementation of the wider masterplan. If land value receipts are shown to be present then the LEP should retain the flexibility to recoup some of its investment.



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