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<b>Meeting:</b>	<b>Cabinet</b>
<b>Meeting date:</b>	<b>27 July 2017</b>
<b>Title of report:</b>	<b>Joint customer services hub – budget update</b>
<b>Report by:</b>	<b>Chief finance officer</b>

## **Classification**

Open

## **Key decision**

This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function to which the decision relates.

Notice has been served in accordance with Part 3, Section 10 (General Exception) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) Regulations 2012.

## **Wards affected**

Widemarsh

## **Purpose**

To approve an increase in capital expenditure to deliver a joint customer services hub at Blueschool House.

## **Recommendation(s)**

**THAT:**

- (a) £50k be allocated from the ICT revenue reserve to provide sufficient ICT equipment at Blueschool House;**
- (b) £200k be allocated from the earmarked economy, communities and corporate revenue reserve to support the increased costs;**
- (c) having regard to the continued revenue benefits identified in the revised business case, a further £720k be approved to deliver a joint customer services hub at Blueschool House, bringing the total estimated cost to £1.92m;**
- (d) the audit and governance committee be asked to identify and recommend improvement actions to strengthen property capital project management and control.**

## Alternative options

- 1 Not to approve the increased capital budget. This is not recommended as significant work has already been undertaken, further work would in any event be required to reinstate the building to a useable standard, and expenditure to date would become abortive. This would result in unbudgeted revenue budget pressures from the abortive costs and the non-delivery of the revenue saving project. It would also have operational implications for both the council and the Department for Work and Pensions (DWP) who will be co-locating to the refurbished Blueschool House. Additionally there may be further costs incurred as a result of early termination of a contract.
- 2 Not to invest in appropriate ICT at Blueschool House. This is not recommended as existing ICT infrastructure is limited in terms of efficiency and flexibility. The ICT investment will facilitate improved working practices including agile working.

## Reasons for recommendations

- 3 On 2 June 2016, the cabinet member contracts and assets approved the establishment of a joint customer services hub at Blueschool House in Hereford. The project involved DWP co-locating with council staff, generating a revenue income for the council resulting in a reduction in the net premises costs for the council.
- 4 As investigative and refurbishment works have progressed it has become apparent that the original capital estimate for the project is insufficient to deliver the full scope of requirements. Value engineering exercises are ongoing to ensure best value is achieved, however the current project estimates total £1.92m (an increase of £970k relative to the original estimate).

## Key considerations

- 5 The cabinet member decision of 2 June 2016 identified a gross capital cost estimate of £950k, of which £250k was to be funded from council resources (capital programme approved by full council in December 2016). The outturn expenditure is forecast to total £1.92m.
- 6 The variances between the original cost plan and current indicative outturn include:
  - Fees and furnishings had not been included in the original decision;
  - Extra roofing costs over the original allowance;
  - Fireproofing of all existing steelwork once exposed;
  - Locating plant in ground area compound as opposed to roof;
  - Landscaping and drainage works and DDA requirements;
  - Small amount of asbestos discovered.
- 7 This has identified a number of weaknesses in cost planning for and monitoring of property related capital projects, which are currently subject to review. The outcome of this review will be reported to Audit and Governance Committee in September.
- 8 Subsequent to the capital programme approval, the cabinet member decisions of 7 July 2016 (Elgar House) and 4 November 2016 (Nelson House) identified ICT revenue budget contributions to be made to the overarching corporate accommodation strategy capital budget. A further £50k contribution from the ICT revenue reserve is sought as a recommendation of this decision report, to provide for sufficient equipment at Blueschool House.

- 9 An earmarked revenue reserve was created at the end of 2016/17 from ECC budgets, to meet a number of known future budget pressures of the directorate. Recommendation (b) seeks authority to drawdown £200k from this reserve to meet the cost requirements of the Blueschool House project. The use of this £200k does not have an adverse impact upon other schemes to be supported from reserves.
- 10 The main contract for construction / refurbishment works was procured via the SCAPE framework.
- 11 Internal audit have been commissioned to review the robustness of original estimates, as well as the project management throughout the Blueschool House project to ensure that lessons learned can be used to improve future project management.

## **Community impact**

- 12 The proposal has a number of linkages to elements of the corporate plan, most notably those which related to the securing of better services, quality of life and value for money, in particular:
  - “review the management of our assets in order to generate ongoing revenue savings, focussing on reducing the costs of ownership of the operational property estate by rationalising the estate and improving the quality of the buildings that are retained”;
  - “ensure our essential assets including schools, other buildings, roads and IT are in the right condition for the long-term cost effective delivery of services”;
  - “work in partnership to make better use of resources, including sharing premises costs through co-location of services and local solutions for community used facilities such as libraries”;
  - “support the improvement in quality of the natural and built environment, bringing about quality development to enable sustainable growth, addressing the need for better business space, affordable homes and student accommodation across the county”;
  - “improve the county’s energy efficiency and reduce the carbon footprint”.
- 13 The proposal would see an improvement and integration of services, meaning better coordination and co-operation between services and service providers also providing, due to proximity to other services; savings in time, travel or expense for those accessing the services.

## **Equality duty**

- 14 The proposal is expected to provide positive outcomes in respect of the public sector equality duty. Many of the customers of the services provided share a relevant protected characteristic and the enhancement of the offer to be provided can only be seen to be of benefit to them (e.g. co-location means that users of both services can receive their services at a single location and will not have to travel half a mile between the offices as is currently the case.) The refurbishment of the building will improve accessibility which again supports the council in its Equality Duty. If required, an equalities impact assessment will be carried out for each of the staff moves associated with this element of the accommodation programme.

## Financial implications

- 15 The cost estimate increase can be summarised as follows:

	Original Estimate £000	Current Estimate £000	Variance £000
<b>Total indicative cost</b>	<b>950</b>	<b>1,920</b>	<b>970</b>

<i>Funded by:</i>			
DWP capital contribution	(400)	(400)	
HCA revenue reserve balance	(300)	(300)	
ICT contribution ( <i>recommendation (a)</i> )		(50)	(50)
ECC revenue contribution 16/17 ( <i>recommendation (b)</i> )		(200)	(200)
Contract administration funded by service revenue budget		(35)	(35) *
Roof works funded by corporate property estate enhancement capital budget		(90)	(90) *
Borrowing supported by DWP revenue		(225)	(225) *
<b>Net capital programme requirement</b>	<b>250</b>	<b>620</b>	<b>370</b> *

\*The £720k referred to in recommendation (c) is the sum of:  
£35k + £90k + £225k + £370k = £720k

- 16 The approved budget can be illustrated as follows:

	£000
Net accommodation strategy capital budget (Council – December 2015)	1,400
Existing contribution from ICT Reserve	100
Expenditure / commitments to date (other than Blueschool House)	
Elgar House	(720)
Nelson House	(87)
Plough Lane	(35)
Other	(25)
<b>Remaining accommodation strategy budget</b>	<b>633</b>
<b>Blueschool House capital programme requirement (from previous table)</b>	<b>620</b>
<b>Net surplus accommodation strategy budget</b>	<b>13</b>

- 17 The refreshed financial model for the Blueschool House investment, inclusive of rental income from DWP for Blueschool House as well as removal of property costs for Franklin House, indicates that the council would still achieve a net revenue benefit of over £1m over a 10 year period.

## Legal implications

- 18 The council has entered into an implied contract, with price and specification agreed, to refurbish Blueschool House with a contractor procured under an EU compliant

framework agreement. Although the contract has not been signed in writing, a contract has been formed. If the council were to terminate the contract upon reasonable notice the council would be liable to pay costs incurred to date. Deciding whether to continue or terminate the contract should depend on whether best value can be achieved.

## **Risk management**

- 19 Investigative works have progressed to an advanced stage and therefore further cost increases are low risk. A contractor has been procured for a detailed quotation. Value engineering exercises will continue in order to try to reduce the overall cost.
- 20 The proposed cladding is not the same as that used on Grenfell Tower, however the inquiry into the tragedy may alter national regulations regarding cladding. This could have a future impact upon the premises.
- 21 This expenditure completes the current accommodation programme, however the council will continue to review its corporate premises and consider future opportunities subject to business cases.

## **Consultees**

- 22 The ward member, Councillor Polly Andrews, has been consulted and is supportive of referral to audit and governance committee. The views of political groups were sought but no comments were received.

## **Appendices**

Appendix 1: Revised financial model

## **Background papers**

- None identified