

**Agenda for Joint Meeting of the  
Audit and Governance Committee,  
Overview Committee, and Scrutiny Committee  
Tuesday, 18 April 2017; 6.00pm**



East Devon District Council  
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[Members of the Audit and Governance Committee](#)  
[Members of the Overview Committee](#)  
[Members of the Scrutiny Committee](#)

**Venue:** Council Chamber, Knowle, Sidmouth, EX10 8HL  
[View directions](#)

**Contact:** Debbie Meakin 01395 517540  
(or group number 01395 517546): Issued 5 April 2017

- 1 Election of Chairman
- 2 Appointment of Vice Chairman
- 3 [Public speaking](#)
- 4 Apologies
- 5 [Declarations of interest](#)
- 6 To agree any items to be dealt with after the public (including press) have been excluded. There are no items that officers recommend should be dealt with in this way.

### **Matters for Debate**

- 7 **Relocation report** (pages 3 - 42)  
This report, presented to Cabinet on 5 April 2017, advises the latest progress on the relocation plans and to consider options toward achieving full relocation to both Exmouth and Honiton and the sale of the Knowle site.  
Appendix 1 – Financial Model services for office relocation project  
Appendix 2 – Overall Project: Exmouth Town Hall refurbishment costs included  
Appendix 3 – Access Road options for the new HQ Office, Honiton

**Voting on any proposed recommendations will be conducted separately for each committee. The recommendations will go forward to Council, to be considered alongside the recommendations made by Cabinet.**

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[Decision making and equalities](#)

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**Report to:** Cabinet  
**Date of Meeting:** 5 April 2017  
**Public Document:** Yes  
**Exemption:** None



**Review date for release**

**Agenda item:** 14

**Subject:** Office Relocation Decisions

**Purpose of report:**

Following the refusal of planning permission and appreciating the continued strategic and operational drivers for relocation, the Office Accommodation Executive Group tasked officers with taking a refreshed review of the Council's options.

To advise Cabinet of latest progress on their relocation plans and to consider options toward achieving full relocation to both Exmouth and Honiton and sale of the Knowle site.

**Recommendations**

- 1. Cabinet recommends to Full Council that;**
  - i. Option 1, as detailed in the report, is adopted and that the Council proceeds with the construction of a new HQ building at Honiton Heathpark, and**
  - ii. The Deputy Chief Executive – Development, Regeneration and Partnerships is delegated authority, in consultation with the Office Accommodation Executive Group, to commence works and deliver the new HQ building.**
  - iii. A budget is agreed of £8,692,000 to provide a new HQ building at Honiton Heathpark, which when added to the approved Exmouth Town Hall refurbishment budget of £1,669,000 gives a total gross budget of £10,361,000.**
- 2. If Cabinet agrees that it wishes to relocate to a new HQ in Honiton then Cabinet is asked whether it wishes to recommend approval of a further sum of £225,000 to fund the addition of a direct access road to the new HQ building past the East Devon Business Centre This is a more direct approach to the building rather than bringing traffic through the Heathpark business park south of the building and does not affect the conclusions in this report in relation to viability and ranking of options for the sale of the Knowle site.**

**Reason for recommendation:**

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The Council has identified the need to move from its existing premises in Sidmouth to refurbished and new offices in Exmouth and Heathpark respectively. Following the planning refusal of development proposals for the Knowle site in December 2016 officers, on the direction of the Office Accommodation Executive Group, have been considering viability options with a view to advising Cabinet and Council on ways forward.

Cabinet on 14 December 2016 agreed to take forward the refurbishment of Exmouth Town Hall and this is now underway with a target of reoccupation in November 2017.

It was also agreed that a further report (Gateway 7) would be forthcoming that updated Cabinet on the independent modelling that was originally provided to inform the Cabinet and Council decision in March 2015 to go ahead with relocation.

**Officer:**

Richard Cohen, Deputy Chief Executive [rcohen@eastdevon.gov.uk](mailto:rcohen@eastdevon.gov.uk)

**Financial implications:**

The report and appendices contain detailed financial information relating to the options considered in this report and support the recommendations made.

Grant Thornton were appointed to develop an updated financial Model of the office relocation business case to follow on from their original Model and cost assumption appraisal. The financial position presented in this report has been taken from the Model prepared by Grant Thornton and their full report is appended for members' consideration.

The Model considers overall relocation costs which for the purpose of completeness includes costs relating to the refurbishment of Exmouth Town Hall which the Council has already resolved to complete and allocated a project budget of £1,669,000. The Model also considers the financial position of Exmouth Town Hall being excluded from the analysis and this is presented within the Grant Thornton Report appended.

The financial analysis modelled do not include the additional costs of £225,000 for the improved access road. The inclusion of these costs would not affect the financial ranking of the options/scenarios presented.

**Legal implications:**

The Council has already decided that it wants to relocate to split sites of Honiton and Exmouth. This was originally on the basis of a back to back deal where the relocation would only progress following a satisfactory capital receipt. It has already been decided to proceed with the Exmouth part of the relocation project. The recommendation in this report seeks to move from this basis so that the relocation is not necessarily predicated on a specific capital receipt (although it may well be if Pegasus are successful at appeal). This is entirely within Members remit and of itself raises no legal issues. Ultimately this is a financial and risk based decision.

**Equalities impact:**

Low Impact

The Council has a general equality duty to advance equality of opportunity and eliminate discrimination. To that end the Council has carried out an extensive equality and best value consultation across the district to gather the views of residents regarding the provision of our services into the future. Investment in our HQ buildings, mobile

working, expanding ways to interact with the Council and a commitment to provide services to people in ways that suit them best are all factors that inform our relocation plans as a means to improve service and accessibility.

Works underway at Exmouth Town Hall are being carried out with regard to improving accessibility and the designs for the HQ at Honiton involve equalities and accessibility best practice.

**Risk:**

Medium Risk

Multiple risks are ongoing in a project of this nature. These are managed through a comprehensive risk register that is maintained by dedicated project management and reviewed on a regular basis. Risk is reported to officers where SWAP are present and to the Executive Group of members including dedicated risk review meetings.

In terms of the recommendations in this report there is a specific risk in relation to moving forward with the construction of the new HQ at Heathpark, Honiton which is addressed in detail in this report.

In summary, the risk involves the agreement to fund and carry out development of new HQ offices in addition to the refurbishment of Exmouth Town Hall without confirmation of the sale of the Knowle site. If the sale of the Knowle did not happen then, in that scenario, the Council would be required to pay for the project costs from reserves or borrowing rather than capital receipt and betterment derived from the sale of the Knowle site.

**Links to background information:**

**The following appendices are attached:**

- **Appendix 1** - Independent Modelling Exercise Update Report by Grant Thornton
- **Appendix 2**– Report Dashboard (large format)
- **Appendix 3**– Heathpark roads illustration

**Linked documents:**

- [3 June 2015 Extra Ordinary Meeting of the Council](#)
- [25 March 2015 Extra Ordinary Meeting of the Council](#)
- [11 March 2015 Cabinet Report – Relocation Decisions](#)

**Link to Council Plan:** Continuously improving to be an outstanding council.

## 1. Background

### Relocation Decision

- 1.1 In March 2015 the Council committed to relocation with an independently costed analysis of the project, its future cost savings and efficiencies that selling the Knowle site and moving to Honiton and Exmouth would bring.
- 1.2 This decision was endorsed in June 2015 by the new Council. Since then the Council has been pursuing actions toward the design, planning and preparations for relocation to Honiton and Exmouth and in parallel Pegasus Life Ltd was designing, consulting and planning its redevelopment of the Knowle site.
- 1.3 During this time, planning permissions were granted for the new HQ building in Honiton and for the refurbishment of Exmouth Town Hall. Planning permission for the redevelopment of

the Knowle site was refused in December 2016 thereby creating further delay and uncertainty for that element of the relocation project.

- 1.4 In December 2016 Cabinet and Council agreed to move forward with the refurbishment of Exmouth Town Hall with the expectation of relocating services, principally Housing and Revenues and Benefits, to the Town Hall from November 2017. Works are now underway.

### **Knowle Site**

- 1.5 Following the refusal of their application, Pegasus Life Ltd has been considering their options in relation to the Knowle site. The council as landowner has been in discussion with Pegasus Life regarding their intentions and we understand that they are preparing their appeal of the decision of the planning authority to refuse permission.
- 1.6 Any appeal will need to have been lodged before 9<sup>th</sup> June 2017 (being 6 months from the date of the refusal notice). The likely timetable of an appeal to be determined is currently about 9 months for a hearing and 18 months for an inquiry. So a decision could be expected between January and March 2018 (hearing) and October 2018 and December 2018 (inquiry). The timing would therefore potentially be between 9-21 months to the sale and vacant possession of the Knowle site. This is on top of the 4 months already incurred between the refusal of planning in Dec 2016 and the presentation of this report.
- 1.7 The Knowle site retains its local plan status as a site allocated for residential development and the grounds for refusal of the Pegasus Life Ltd application were specific and did not challenge the principle of a residential or care home use. Nevertheless this is the second time that a planning application has been turned down by the Council's Development Management Committee.
- 1.8 Up to this point that Council has pursued a 'back to back' arrangement involving a capital receipt (of £7.505m) on vacating the Knowle site. However, in the light of this second refusal of planning permission it is important that the Council reflects on the current state of play, the reasons for relocation (both operational and strategic) and considers the options it now faces in terms of its relocation plans.

## **2. Operational and Strategic Reasons for Relocation**

- 2.1 Members will recall that the strategic and operational reasons for relocation have been identified and reiterated in the past. It is important that we remind ourselves not only of the financial business case for relocation but also for the benefits and drivers in relation to our service delivery, our customers and staff. These benefits extend beyond that of simply saving money in maintaining an old, large and expensive building. It is worth refreshing our understanding of the grounds for the Council's departure from its current location as these remain the key reasons for relocation:

### **I. Effectiveness**

- More and more, the workforce of the Council is operating in a mobile and technology led manner. The Council does not need space in the same way as before but it does need flexible and modern office space that enables modern ways of working as well as full accessibility and predictable operating costs.
- The public sector is often criticised for not being easy to reach especially its frontline services. At the heart of East Devon's relocation aims has been the desire to make services and staff accessible to residents and businesses both remotely and face to face. Exmouth and Honiton as office locations will deliver that flexibility for our customers far more effectively than trying to keep the Knowle going.
- If the Council is going to spend money on offices it is better to put that money into the right places, in ways that use the investment more cost effectively and in a way that can secure a capital receipt from land sale to offset the cost of borrowing.

## II. Transformation

- Across the public sector, the drive for efficiencies is increasingly about more than just making successive cuts. For front-line services to be protected and long term savings to be achieved, East Devon, like other councils, has recognised that traditional ways of working and delivering services have to be the subject of fundamental review and transformation.
- Office space can no longer be accepted as a static overhead. It is important that we recognise that relocation to Exmouth and to Honiton presents us with a unique and timely opportunity to significantly enhance the effectiveness of service delivery for our customers through a more efficient use of space and new ways of working which is underpinned by mobile and digital technology.
- It is a well-trodden path that many councils across the UK have adopted and already moved away from expensive, outdated offices where employees are tied to their desks, office locations and legacy IT systems.
- Relocation is a key element in the Council's Transformation Strategy and has been included as part of the Strategy approved by members.

## III. Council Plan Delivery

- For East Devon to deliver the ambition and priorities set out in our Council Plan, work is underway to harness the benefits of technology so that our staff can deliver services in the ways our customers want them, both now and in the future.
- Technology is increasingly an 'enabler' allowing staff to work on a more flexible and mobile basis for the benefit of the customer without the need to return to the office location - making them much more efficient and productive.
- Our demand analysis and consultation shows that most of our customers contact us by phone and that increasingly customers are using our on-line services. Having a mobile and flexible workforce as well as an office presence in our two largest towns will ensure that we are truly 'open for business no matter how our customers want to get in touch.

## IV. Workforce

- Our workforce is our most valuable asset and without them we cannot deliver on what our customers deserve and expect. Our People Strategy is designed to ensure that we employ, develop and retain high performing people who take pride in their work and care about delivering the Council's priorities.
- To succeed in delivering the aims of our People Strategy, at the very least, we need to provide a fit for purpose, modern working environment which is designed and equipped for individuals and teams who work on a mobile and flexible basis.
- Modern, accessible office environments will be both attractive to our residents and help us to recruit and retain a skilled and contented workforce. At a time of near full employment and a competitive labour market EDDC must offer working environments, workplace accessibility and flexible work arrangements that attract and keep a skilled, productive workforce.

## V. Asset Value

- As with other public bodies, East Devon is seeking to maintain high quality services, manage costs and make optimal use of its assets. This is at a time when central government grant is diminishing and Council's must find effective and imaginative solutions to cost saving without impact on services.
- The Knowle site is a high value asset in the Council's portfolio and remains an underutilised asset to be realised for a wider benefit. If the Council remains on the Knowle site then the asset and its value are not utilised.

## VI. **Cost of Knowle Buildings Repair and Maintenance**

- If the Council were to remain at the Knowle then essential maintenance and repair of the buildings would be £1,939,000. This is an estimate and, as with, older buildings, cannot be guaranteed. There is no capital receipt for this expenditure.
- With the move of service focused teams to the refurbished Exmouth Town Hall the Council would still have to keep any empty Knowle buildings in repair and heated.
- If we remain on the Knowle site then the cost of repair and modernisation would have to be found from elsewhere.
- The Knowle buildings themselves have no capital value therefore any investment in repair of the Knowle will show no return or value uplift.
- As the Council has learnt through its marketing, none of the existing buildings are of interest to the development sector: it is the site that has value.

## VII. **Cost of Knowle Buildings Modernisation**

- A key argument for the Council's departure from the Knowle is that the building is not fit for the functioning of a modern, flexible and efficient public authority.
- Beyond the costs of maintenance and repair, if we wished to turn the Knowle offices into an accessible, open planned office with flexible working and meeting spaces, including the inclusion of the existing Chamber, Members Area and Committee Room, then that would be expensive and without the offset of a capital receipt: The order of costs for these works according to building price book calculations would be circa:

○ The former hotel structure	£11,298,000
○ The 19702/80s offices	£ 5,908,000

- Exmouth Town Hall is a building of mixed age that makes sense for refurbishment because of its more modest scale and the fact that its location is in the heart of the community where EDDC services are most in demand.
- The Knowle is twice the size that the Council has needed in its move to new offices. When Exmouth is up and running there will be even greater unused and cost inefficient space at the Knowle.
- A new build HQ at Honiton continues to offer a modern, low energy, operationally cost effective and fully accessible building close to the centre of the district.

## VIII. **Knowle Future**

- The appropriateness of a residential use on the Knowle has been established through allocation in the adopted Local Plan.
- The recent refusal of planning permission for the development proposed by Pegasus Life accepted the principle of residential / care home development on the Knowle site.

## IX. **Benefits to the District**

- Council has already determined that compared to remaining on the Knowle site, a twin site solution of Exmouth and Honiton is a positive outcome in terms of keeping the Council's jobs in the district.
- Sidmouth will gain a legacy of a new living space on the Knowle site and the economic benefit of the spending power of an addition to the town's community.
- Sidmouth Town Council has been offered the ownership of the extensive remaining parkland at the Knowle.
- It brings the benefits of the Council's presence to new East Devon towns after over 40 years in Sidmouth.
- Relocation continues to offer an overall economic benefit to East Devon as a whole.



### 3. Options Looking Forward

- 3.1 Following the refusal of the Pegasus Life application, and with a mind to time delays and costs, we have modelled several scenarios for the way forward in terms both of the sale of the Knowle site and also the impact of delay or remaining in part at the Knowle indefinitely. There are three principle ways forward for the Council to consider in terms of timing of relocation:
- I. **Option 1** - Take forward the construction of a new Honiton HQ in anticipation of an acceptable combination of capital receipt and prudential borrowing. This is the 'go now' option.
  - II. **Option 2** - Delay relocation process from the Knowle for a period of 12-24 mths or more pending resolution of appeal and/or new site marketing to secure a new development proposal and planning permission. Delay pending the sale of the Knowle keeps the 'back to back' arrangements that are currently in place.
  - III. **Option 3** - Complete Exmouth Town Hall refurbishment and invest in essential repair and/ or invest in modernisation of a reduced area of Knowle office space.
- 3.2 The next sections of this report (sections 4, 5 and 6) address the financing and the timing of a relocation decision:
- **Section 4 – Financial Considerations:** considers the different development scenarios and sale values for the Knowle and models these in terms of overall betterment compared to a 'do minimum' option of remaining at the Knowle in part and doing essential repairs only.
  - **Section 5 – Timing Considerations:** considers the timing aspects of relocation in terms of the 'go now' approach, a delay pending Knowle sale or to remain indefinitely at the Knowle.
  - **Section 6 – Options analysis:** draws together the operational, strategic, financial and timing issues into a 'For' and 'Against' style analysis of the three options summarised above at 3.1.
- 3.3 Sizing and locating the Council for the 21<sup>st</sup> Century remains of paramount concern and Members have previously confirmed that they wish to move from the Knowle site. That decision was made on the basis of the strategic and operational drivers set out above and a detailed, independent cost model. As rehearsed above, the strategic and operational drivers remain, hence the Council's decision in December 2016 to move forward with the refurbishment and modernisation of Exmouth Town Hall.
- 3.4 In light of Options 1 & 2 above, it is necessary to consider the financial implications if Pegasus's appeal is unsuccessful and it is necessary to remarket the Knowle. Various options have been considered by an Independent Valuer using Red Book assessment and the value determined set out below. These schemes are relevant to the appraisal carried out by Grant Thornton, as detailed in the attached report (Appendix 1) and also in the table at paragraph 4.4 below.

## Alternative schemes and Projected Capital Receipts

	POTENTIAL ALTERNATIVE SCHEMES	SITE VALUE
Remarketing Option 1	Scheme of 97 flats / units for C2 uses. Does not include affordable, reduced number from current scheme and includes leisure and café facilities.	£ 6.80m
Remarketing Option 2	Scheme of 65 houses / dwellings with 50% affordable, reflecting site capacity and likely Developer ambitions	£ 5.82m
Remarketing Option 3	Local Plan compliant - Scheme of 50 houses / dwellings with 50% affordable.	£ 4.17m
Remarketing Option 4	Scheme of 109 flats / units for C3 uses with 50% affordable, excludes leisure and café facilities	£ 3.22m

### 4. Financial Considerations

- 4.1 While the strategic and operational details that inform the decision to relocate remain the key drivers, for the purposes of consistency, transparency and reflecting the requirement of the March 2015 Council decision (notwithstanding that circumstances have moved on), this report includes further modelling of the various options to assess the financial case to enable Cabinet and Council to make an informed decision. The modelling explores the up to date cost elements and projections that underpin the financial case.
- 4.2 The modelling has been conducted independently by auditors, Grant Thornton and we are therefore able to conclude that the analyses are robust as they were in March 2015. Their report is attached at Appendix 1.
- 4.3 An extract from the Model's Dashboard is reproduced below and gives the overall position including the associated costs with the refurbishment of Exmouth Town Hall. **Two versions of the Dashboard are presented below, the difference between them being the remarketing scenarios (last four columns) relating to different possible capital receipt sums as given in 3.4 above. The first Dashboard shows the effect on the 4 scenarios of delaying the decision to relocate awaiting the planning appeal, the second Dashboard shows the effect on these scenarios if the Council agree to relocate now "Go Now/Pegasus Option".**

Key findings to note are:

- Remaining at the Knowle with essential and basic repairs undertaken will cost the Council £4.5m over 20 years. Moving to a new HQ in Honiton which would give a cash saving of £1.4m over the same period. The two together is a difference in options of £5.9m. This is based on a timescale of approval in April 2017 and an assumed sale receipt of £7.5m which reflects a successful appeal action by Pegasus.
- If the Pegasus appeal is not successful then this report identifies alternative and viable options for a sale value for the Knowle. These other scenarios are explored in more detail within the Grant Thornton model attached. The Model shows four alternative scenarios based on differing levels of sales receipt for the Knowle to give members an understanding of the implications should a decision be made to relocate from the Knowle but the Pegasus receipt is not received. This is in line with the asset valuations identified in 3.4 of this report. Three of the four scenarios still give a better cash position to the Council than the "Do Minimum" option and all four options give a better Net Present Value (NPV) calculation.

- If Council decide to delay the decision to build a new HQ in Honiton until the outcome of the Pegasus planning appeal is known (assuming a successful appeal and a completed sale contract on the Knowle), and then to approve a move to Honiton - the Model shows the resulting delay reduces the saving sum by £1.0m from £1.4m to £0.4m. The non-financial impacts of delay are also addressed further in the report.
- The Model shows a ranking based on the net cash position of each option and a Net Present Value calculation of each.
- It is important to note that Remarketing Option 4 presents a capital receipt which is less than the Local Plan compliant scheme. It is also ranked as the worst option. Clearly the Council would not seek to sell the site for anything less than the value of a Local Plan compliant scheme.

**Overall Project – Exmouth Town Hall Refurbishment Costs included (a larger version of this table is included at Appendix 2) – “Delay” Option on remarketing scenarios 1 to 4**

Dashboard

				Delay Option on remarketing scenarios 1 to 4					
		Current Base	Do Minimum	Pegasus Option	Pegasus Delayed Option as a result of their planning appeal	Alternative capital receipt following remarketing 1	Alternative capital receipt following remarketing 2	Alternative capital receipt following remarketing 3	Alternative capital receipt following remarketing 4
Unit: £									
<b>Total Cost by Option</b>									
NPV - Discounted to 1 January 2017	£		(3,762,238)	789,055	328,870	134,020	(492,444)	(1,615,284)	(2,261,781)
Total Operating Expenditure Betterment	£		904,611	4,648,892	4,388,568	4,388,568	4,388,568	4,388,568	4,388,568
Capital Expenditure	£		(3,608,000)	(10,360,950)	(10,871,454)	(10,871,454)	(10,871,454)	(10,871,454)	(10,871,454)
Operating Expenditure Betterment	£		904,611	4,648,892	4,388,568	4,388,568	4,388,568	4,388,568	4,388,568
Capital Receipts	£			7,505,000	7,505,000	6,800,000	5,820,000	4,170,000	3,220,000
Interests									
Internal Council Funding	£		(1,828,139)	(59,316)	(96,940)	(96,940)	(96,940)	(96,940)	(96,940)
PWLB Short-Term Funding	£			(49,572)	(66,191)	(66,191)	(66,191)	(66,191)	(66,191)
PWLB Long-Term Funding	£			(257,108)	(451,310)	(525,151)	(744,604)	(1,114,090)	(1,326,824)
Council Additional Funding Interests	£			(22,326)	(8,582)	(16,452)	(167,078)	(647,498)	(924,122)
Drawdowns									
PWLB Short-Term Funding	£			8,218,079	8,907,015	8,907,015	8,907,015	8,907,015	8,907,015
PWLB Long-Term Funding	£			1,204,080	2,015,400	2,345,150	3,325,150	4,975,150	5,925,150
Repayments									
PWLB Short-Term Funding	£			(8,218,079)	(8,907,015)	(8,907,015)	(8,907,015)	(8,907,015)	(8,907,015)
PWLB Long-Term Funding	£			(1,204,080)	(2,015,400)	(2,345,150)	(3,325,150)	(4,975,150)	(5,925,150)
<b>Total Net Council Cash Position vs. Current Base</b>	£		<b>(4,531,529)</b>	<b>1,404,619</b>	<b>399,091</b>	<b>(387,620)</b>	<b>(1,737,699)</b>	<b>(4,237,605)</b>	<b>(5,676,963)</b>
Rank			6	1	2	3	4	5	7
Total Operating Expenditure	£	17,880,815	16,976,203	13,231,923	13,492,247	13,492,247	13,492,247	13,492,247	13,492,247
<b>Incremental Cost vs. Do Minimum</b>									
Incremental NPV	£			4,551,293	4,091,108	3,896,259	3,269,795	2,146,954	1,500,458

Overall Project – Exmouth Town Hall Refurbishment Costs included (a larger version of this table is included at Appendix 2) – “Pegasus/Go Now” Option on remarketing scenarios 1 to 4

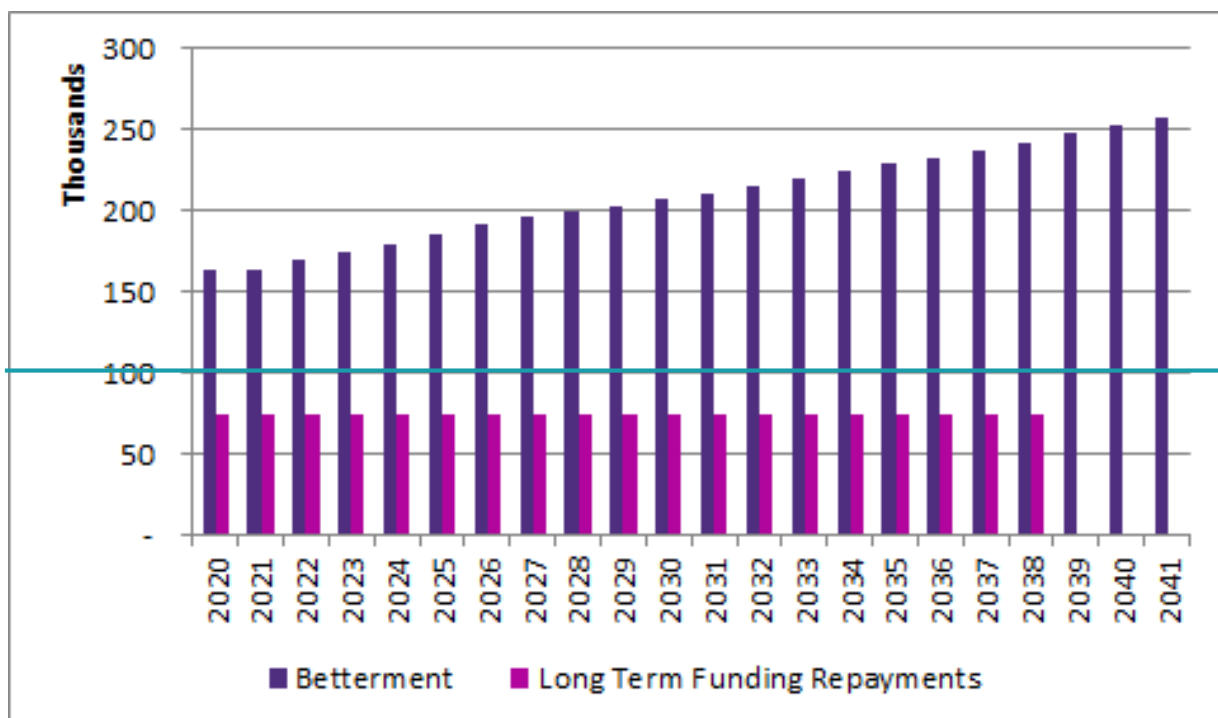
Dashboard

Pegasus/Go Now Option on remarketing scenarios 1 to 4

		Current Base	Do Minimum	Pegasus Option	Pegasus Delayed Option as a result of their planning appeal	Alternative capital receipt following remarketing 1	Alternative capital receipt following remarketing 2	Alternative capital receipt following remarketing 3	Alternative capital receipt following remarketing 4
Unit: £									
<b>Total Cost by Option</b>									
NPV - Discounted to 1 January 2017	£		(3,762,238)	789,055	328,870	668,886	100,926	(999,620)	(1,646,094)
Total Operating Expenditure Betterment	£		904,611	4,648,892	4,388,568	4,648,892	4,648,892	4,648,892	4,648,892
Capital Expenditure	£		(3,608,000)	(10,360,950)	(10,871,454)	(10,360,950)	(10,360,950)	(10,360,950)	(10,360,950)
Operating Expenditure Betterment	£		904,611	4,648,892	4,388,568	4,648,892	4,648,892	4,648,892	4,648,892
Capital Receipts	£		-	7,505,000	7,505,000	6,800,000	5,820,000	4,170,000	3,220,000
Interests									
Internal Council Funding	£		(1,828,139)	(59,316)	(96,940)	(59,316)	(59,316)	(59,316)	(59,316)
PWLB Short-Term Funding	£		-	(49,572)	(66,191)	(194,344)	(194,344)	(194,344)	(194,344)
PWLB Long-Term Funding	£		-	(257,108)	(451,310)	(418,581)	(638,034)	(1,007,520)	(1,220,254)
Council Additional Funding Interests	£		-	(22,326)	(8,582)	(5)	(5,230)	(410,804)	(687,395)
Drawdowns									
PWLB Short-Term Funding	£		-	8,218,079	8,907,015	8,708,258	8,708,258	8,708,258	8,708,258
PWLB Long-Term Funding	£		-	1,204,080	2,015,400	1,869,243	2,849,243	4,499,243	5,449,243
Repayments									
PWLB Short-Term Funding	£		-	(8,218,079)	(8,907,015)	(8,708,258)	(8,708,258)	(8,708,258)	(8,708,258)
PWLB Long-Term Funding	£		-	(1,204,080)	(2,015,400)	(1,869,243)	(2,849,243)	(4,499,243)	(5,449,243)
<b>Total Net Council Cash Position vs. Current Base</b>	£		<b>(4,531,529)</b>	<b>1,404,619</b>	<b>399,091</b>	<b>415,695</b>	<b>(788,982)</b>	<b>(3,214,043)</b>	<b>(4,653,367)</b>
Rank			6	1	3	2	4	5	7
Total Operating Expenditure	£	17,880,815	16,976,203	13,231,923	13,492,247	13,231,923	13,231,923	13,231,923	13,231,923
<b>Incremental Cost vs. Do Minimum</b>									
Incremental NPV	£			4,551,293	4,091,108	4,431,125	3,863,164	2,762,619	2,116,145

4.4 A useful table to consider from the Grant Thornton report and Model is shown below. This emphasises the financial position considering the “Pegasus” option and comparing costs associated with the long term loan required of £1.2m to meet remaining costs once the capital receipt has been received which is more than offset by the annual betterment calculation.

Annual Betterment compared with long term loan repayments



4.5 With regard to the immediate savings and increased savings over time it is worth emphasising the following:

- It is anticipated £135,000 will be saved during the first full financial year on operating costs by moving away from Knowle (with essential repairs) to a new purpose built Office at Heathpark and Refurbished Exmouth Town Hall.
- It is anticipated financial saving will increase with inflation during subsequent years
- Every year after the Council has moved, the savings in operating costs are greater than the loan repayments.
- After twenty years, the loan repayments end and the savings continue to increase.
- Over the twenty year period, the district will be £1.4m better off if the Council moves from Knowle
- This compares with being £4.5m worse off by remaining at Knowle and carrying out only essential maintenance works.

4.6 For members' interest, contained within the Grant Thornton Report (Appendix 1) is another dashboard as above using the same modelling but excluding all cost related to the Exmouth Town Hall refurbishment as councillors had already agreed this expenditure in December 2016. A similar magnitude of benefit is shown.

## 5. Timing Considerations

5.1 A review of the impact upon the project programme's timeline has been undertaken for each of the three options. This has identified the following key milestone dates:

	<b>Description</b>	<b>Full Occupation date of the new facilities</b>
Option 1	Take forward the construction of a new Honiton HQ in anticipation of an acceptable combination of capital receipt and prudential borrowing	Dec 2018
Option 2	Delay relocation from the Knowle pending resolution of appeal and/or new site marketing to secure a new development proposal and planning permission	August 2020
Option 3	Complete Exmouth Town Hall refurbishment and invest in repair and modernisation of a reduced area of Knowle office space	Exmouth TH – November 2017 Knowle - April 2021

## 6. Options Analysis

6.1 As detailed in the financial assessment section of this report, the different scenarios of capital receipt on the sale of the Knowle combined with borrowing produce a range of capital receipt and annual debt repayment sums.

- 6.2 Pegasus Life are going to appeal on their existing scheme which would deliver an already agreed and known value to the Council of £7.505m.
- 6.3 Having already agreed that there are multiple strategic and operational reasons to sell the Knowle site and build a new HQ at Honiton to complete the relocation plan, it is for Cabinet and Council to decide on the basis of these variations and the strategic and operational merits of relocation, which way they want to move forward.
- 6.4 Looking at the options in more detail:

## Option 1

Take forward the construction of a new Honiton HQ in anticipation of an acceptable combination of capital receipt and prudential borrowing. This would involve either a successful appeal or remarketing the Knowle for sale as a Local Plan compliant development or better.

For	Against
<ul style="list-style-type: none"> <li>• Uncoupling the construction of the Honiton HQ from the sale of the Knowle site and the planning process so that the Council is in control of the timeline of relocation and can move forward with certainty.</li> <li>• The Honiton HQ has planning permission already in place.</li> <li>• Since the original sequence of events was agreed, the Knowle site has been given an allocation for residential development in the adopted Local Plan</li> <li>• The Knowle site remains a valuable and attractive asset. If PegasusLife win their appeal then the Council realises the agreed value. If the appeal is rejected then the site goes back to the market for sale to another developer.</li> <li>• If the Council has separately begun to build a new HQ and vacates the Knowle site then this intent should give confidence to the market regarding the Knowle site.</li> <li>• A period of borrowing without capital receipt was always factored into the original project financial plan. This was for a period of two years to reflect the delay between the Council beginning new office construction works and the developer securing vacant possession on the Knowle at which point they would pay over the capital sum.</li> <li>• Delay to development of a new HQ will make the project vulnerable to construction cost inflation.</li> <li>• The sooner the project is completed the less the cost of project management.</li> <li>• Prudential borrowing is a well-established and sound local government practice.</li> <li>• The independently, professionally assessed range of values for a future sale of the Knowle site all indicate a viable mix of capital receipt and debt repayment.</li> <li>• For staff we minimise uncertainty and demoralisation if we avoid delay. In this scenario the Council would be in its new HQ in December 2018.</li> <li>• Interest rates on borrowing are low at the moment so it is a good time to fix a repayment rate.</li> <li>• Exmouth Town Hall will be operational from Nov 2017.</li> </ul>	<ul style="list-style-type: none"> <li>• The Council is proposing to go forward with the construction of new offices without an unconditional contract for the sale of the Knowle site. This adds an additional element of risk to the project.</li> <li>• If Pegasus Life were not to win their appeal then the sale of the Knowle to another developer could be subject to delay that would need to be managed through extended borrowing.</li> <li>• If Pegasus Life were not to win their appeal then future development proposals for the Knowle site would still be subject to planning permission.</li> <li>• This is a change from the Council's previously proposed approach to relocation.</li> </ul>

### Financial Implications Option 1:

Best case scenario;

Pegasus obtain their permission on appeal and the Council receives the agreed receipt of £7.505m, this represents a positive cash saving of £1.405m (or positive NPV of £4.551m) and a benefit of £5.937m overall compared to the 'Do Minimum' option.

Worst case scenario;

Remarketing and obtaining the value of a local plan compliant scheme, this represents a cost to the Council of **£3.214m** overall, however it still presents a **£1.317m** saving (or positive NPV of **£2.763m**) when compared to the costs of the 'Do Minimum' option.

Timing Implications:

December 2018 – Full occupation date of new facilities.

## Option 2

Delay relocation from the Knowle for a period of 12-24 mths or more pending resolution of appeal and/or new site marketing to secure a new development proposal and planning permission.

For	Against
<ul style="list-style-type: none"><li>• Waiting for an agreed sale means that the Council will know the capital receipt involved and can calculate borrowing accurately at a future date.</li><li>• This option still retains the Council's commitment to relocation.</li><li>• Exmouth Town Hall will be operational from Nov 2017 and not affected by a delay.</li></ul>	<ul style="list-style-type: none"><li>• This option subjects the Council's strategic and operational priorities for relocation to the decisions of the Development Management Committee which has twice previously refused applications for development on the Knowle site.</li><li>• The cost of construction will increase due to inflation in materials and wages and any other future economic variables.</li><li>• Furniture, ICT equipment and other elements of the project will also be subject to inflation.</li><li>• A projected timeline of 1-2 years is a reasonable estimate but not guaranteed. Whilst it is a reasonable expectation that the Knowle will be developed, dependency on developers and the planning process adds an uncertain timeline.</li><li>• The condition of the Knowle buildings remains a cause of concern. It could be two years or more before a new HQ build begins. In those timelines the Council would not depart from the Knowle until 2019 or 2020 or later. In the meantime we continue to have repair liabilities such as the boiler system, roof and mains electricity to consider.</li><li>• If the Council remains at the Knowle for several more years then increasingly and with the need for new desktop technology to roll out, the Council will be required to install new technology in an old building and either remove or replace it when a new HQ is built.</li><li>• Tying the move to site sale and planning permission means that there will also be delays incurred to achieving the cost savings that would arise from moving to a new, energy efficient HQ.</li><li>• Remaining at the Knowle may give the developer sector less confidence in the Council's commitment if the Council has not vacated the site.</li><li>• Delay to relocation will impact on staff morale.</li></ul>



**Financial Implications Option 2:**

**Best case scenario;**

Pegasus obtain their permission on appeal and the Council receives the agreed receipt of £7.505m, this represents a cash saving of £399k (or positive NPV of £4.091m) and a benefit of £4.931m overall compared to the 'Do Minimum' option.

**Worst case scenario;**

Remarketing and obtaining the value of a local plan compliant scheme, this represents a cost to the Council of £4.238m overall, however it still presents a £294k, saving (or positive NPV of £2.147m) when compared to the costs of the 'Do Minimum' option.

**Timing Implications:**

August 2020 – Full occupation date of new facilities.

**Option 3**

Complete Exmouth Town Hall refurbishment and invest in repair and modernisation of a reduced area of Knowle office space.

For	Against
<ul style="list-style-type: none"><li>• The Council will not need to build a new HQ at Honiton.</li><li>• A reduced area of the Knowle buildings could be retained and modernised and the Council retains the Knowle site.</li><li>• Sidmouth would continue to benefit from the presence of a proportion of the Council's staff and its operations.</li><li>• Exmouth Town Hall will be operational as a service hub for Exmouth from Nov 2017.</li></ul>	<ul style="list-style-type: none"><li>• For a combination of operational and strategic reasons the Council decided to sell the Knowle site and relocate to Honiton and Exmouth.</li><li>• On the basis of previous marketing it is clear that the development industry sees no value in the Knowle buildings. Investment by the Council in the Knowle offices will not add value to the site.</li><li>• The Council will be required to maintain and repair the fabric of office spaces that are not in use.</li><li>• To carry out essential repairs and maintenance on the Knowle buildings will cost £1.939m.</li><li>• To bring remaining parts of the Knowle buildings into a modern, less cellular form that could accommodate modern ways of working would cost between £5.9 and £11.3m.</li><li>• Retaining the continued use of parts of the Knowle will be an expensive and compromised future for the Council.</li><li>• Remaining at the Knowle will mean that the site cannot provide a capital receipt to offset investment in essential repairs/maintenance or modernisation.</li><li>• The disruption of building works on the Knowle including loss of car parking to a construction compound and the costs of temporary office buildings would add cost and impact on both services and the immediate neighbourhood.</li><li>• The Council would remain in an HQ building that is not central to the district.</li><li>•</li></ul>

### Financial Implications Option 3:

#### Best case scenario;

'Do Minimum' option costs the Council £4.532m which is comprised of essential repairs and maintenance of Knowle and refurbishment of Exmouth Town Hall.

#### Worst case scenario;

Carrying out the modernization programmes at an estimated capital cost of either (i) £5.908m or (ii) £11.298m depending which part of the Knowle is modernised. To this needs to be added the cost of Exmouth Town Hall refurbishment (£1.7m) to enable a like for like comparison to be made with other options and scenarios outlined in this report.

### Timing Implications:

April 2021 – Full occupation of modernized facilities.

## Summary

7.1 In summary, Members may wish to bear in mind the following:

- Pegasus Life are preparing their appeal the previous planning decision. The report also considers alternative sale scenarios using the Grant Thornton model. The scenarios of a future sale of the Knowle are a range of options and all but one are affordable. The option that is Local Plan compliant for the Knowle is among the affordable. The Council would not pursue the non-affordable option as the benchmark would always be the Local Plan compliant scheme.
- Retaining the Knowle offices and not building a new HQ at Honiton carries costs in terms of essential repairs and maintenance as a minimum. Modernisation of part of the Knowle offices in a manner that makes the offices fit for future local government such that the Council can operate effectively.
- If the Council wishes to be in control of a project as important and transformational as relocation then it needs to address the case to uncouple the project from the sale of the Knowle site and the planning process.
- The Council needs to consider risk in terms of the probability of sale of the Knowle site, the value of the Knowle site and the associated borrowing requirement.
- At the same time the Council needs to consider risk in terms of not moving forward with the development of the new HQ at Honiton not least in terms of organisational performance, service flexibility and construction cost inflation.
- Staying at the Knowle, even in part, carries with it a high level of compromise, impracticality, expense and risk for a public service provider seeking to optimise its service quality and cost efficiency across the district. In any flexible future the Council would not retain the Knowle site as its HQ operation. The strategic and operational imperative remains as strong as ever.
- The delay or deferral of moving from the Knowle pending a future planning permission and sale of the site brings with it uncertainty and additional expense. Inflation in terms of the construction contract costs is obvious. The energy costs of the Knowle will continue to be an expensive waste. The Council will do minimum repair to the site or alternately have to invest in major items if there is a significant failure and repair requirement among the identified liabilities. Staff uncertainty and low morale are genuine concerns for a Council

that already struggles to compete in recruitment and retention with the private and other public sector.

- It was the Council's original intent to 'back to back' the sale of the Knowle with the commencement of development of new and refurbished offices. This has not been possible to date and an evolved approach is needed. The operational and strategic arguments for relocation to Exmouth and Honiton remain. The continuation and/or perpetuation of the Council's residency in its current premises is increasingly impractical in terms of cost, modern office working and service delivery. A solution that involves the Knowle either temporarily or permanently involves risk and compromise.

7.2 On the basis of this and previous reports, Council decisions to date and the findings of the conclusions from Grant Thornton it is the recommendation of officers that Option 1 is pursued and that the Council moves forward with a new build HQ at Honiton with the subsequent sale of the Knowle site.

## **8. HQ Access Road**

- 8.1 This report also offers members the option of whether they wish to include an additional expenditure of £0.225m to develop a direct access road via the East Devon Business Centre (EDBC) entrance and realign EDBC car parking facilities. This would allow the improvement of car parking facilities for EDBC to the side of the new access road and create a more straightforward approach to the new council HQ building for officers, members and visitors. It is not essential and could be added at a later date but there is an operational logic and cost efficiency to carrying out the work during the main construction period.
- 8.2 The figures presented from the Grant Thornton Model do not include the £0.225m to fund the direct access road. If included this would affect the bottom line net cash position by this amount, but does not change the financial conclusion presented in relation to ranking and viability of the timing options and scenarios of different capital receipts.
- 8.3 A drawing showing the two road access options is attached at Appendix 2.

# Financial Model services for the Council's office relocation project East Devon District Council

27 March 2017



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Our work has been conducted and our report prepared for East Devon District Council in accordance with a specified set of requirements. Accordingly, any use third parties may choose to make of our report is entirely at their own risk and we accept no responsibility whatsoever in relation to such use.

# Glossary of Terms

Due to the technical nature of this review we have included this glossary to explain some of the key terms used.

Term	Description
<b>Additional Council Funding</b>	Contributions to the project by the Council used to cover any cash flow shortfall where Betterment does not fully cover the long term funding costs.
<b>Betterment</b>	Operational savings for each option as compared to the Current Base scenario.
<b>Capex</b>	Capital expenditure on New Buildings and improvements to Knowle.
<b>Cash inflows</b>	Cash receipts to the project. These include sale proceeds from existing buildings and Betterment cash flows.
<b>Cash outflows</b>	Cash payments from the project. These include debt service costs.
<b>Cash flow</b>	The net periodic sum of all cash inflows and outflows.
<b>Council Internal Funding</b>	£5m initial funding by the Council for project costs. This is repaid by short term funding during construction.
<b>Dashboard</b>	Output worksheet included in the Model.
<b>Debt Drawdown</b>	Cash receipt from Debt provider.
<b>Debt Servicing</b>	The payment of debt interest and capital in line with standard loan terms.

Term	Description
<b>Financial Model or the Model</b>	The option appraisal Model developed by Grant Thornton UK LLP.
<b>Inputs (including TB and NTB)</b>	Time Based ("TB") and Non Time Based ("NTB") Input worksheets included within the Model.
<b>Internal Rate of Return or IRR</b>	The return required to provide a net present value of zero
<b>Long Term Funding</b>	Assumed to be a debt repaid on an annuity basis (similar to a mortgage contract with payments covering both interest and principle).
<b>NPV</b>	Net Present Value of future cash flows. The cash equivalent in today's value of future cash flows.
<b>Outputs</b>	Outputs from the Model, included on the Dashboard.
<b>Short Term Funding</b>	Maturity based debt. Short term debt funding used to fund construction costs. This type of debt allows multiple drawdowns on a regular basis. This debt is then repaid via long term funding and capital receipts.
<b>RPI</b>	Retail Price Index.

# 1. Introduction

## 1.1 Background

- 1.1.1 In January 2015 East Devon District Council ("the Council") commissioned Grant Thornton to complete an assessment of options for the relocation of the Council offices.
- 1.1.2 At the time the Council was seeking to dispose of the existing Council office (Knowle) in Sidmouth and complete a relocation to two other sites. The Council, with the support of Davis Langdon / Aecom, had compiled a relocation business case and developed an associated financial model. The relocation business case included the development of two other Council sites in Exmouth and Honiton.
- 1.1.3 Under the terms of our engagement letter dated 23 January 2015, Grant Thornton developed a financial model for the Council to independently calculate the projects costs based upon a set of cost assumptions, including sensitivity analysis and a calculation of the NPV of costs. The final version of the updated model was handed over to the Council on the 27 February 2015 together with a supporting report (referred to as the Original Model and Original Report).
- 1.1.4 The Original Model assumed operations would commence in the relocated sites from September 2017 however, this relocation project has been subject to delays. The Exmouth refurbishment has commenced on 13 February 2017, with the Council having previously approved financing for this refurbishment. The Council has asked Grant Thornton to update the previous Model to reflect the current cost estimates and update the project cost calculations on the assumption that the Honiton redevelopment commencing in June 2017. We have also been asked to provide a report to summarise the updated costs and compare the updated costs for the selected option (described as Heathpark 2,776m<sup>2</sup> VG in the Original Report) against updated costs for the Do Minimum and Current Base from the Original Report.
- 1.1.5 In addition, the Council has asked that Grant Thornton also to evaluate sensitivities on the impact of different capital receipt amounts and a delay in the Honiton redevelopment to commence in January 2019, as well as modelling different capital receipts amounts.



## **1.2 Scope of our work**

1.2.1 Our work focused on the following areas summarised below:

1. The Council has asked Grant Thornton to update the Original Model that was developed in 2015 with the current project costs. As before, the Model will independently calculate the projected costs based upon the set of cost assumptions and will include sensitivity analysis, discounted cash flow analysis including Net Present Value (NPV) and Internal Rate of Return (IRR) calculations. We have passed the Model to the Council, to allow the Council to further update the inputs following the completion of this engagement.

## **1.3 Period of our fieldwork**

1.3.1 Our review was performed in the period between November 2016 and March 2017. We have not performed any further work since 21 March 2017 and, in agreement with the Council, our report may not take into account matters that have arisen after our report. For the avoidance of doubt we have only undertaken the modelling work described above and have not revisited or revised any further aspects of our Original Report including, but not limited to, the Benchmarking exercise.

## **1.4 Limitation of liability**

1.4.1 We draw the Council's attention to the limitation of liability clauses in paragraphs 3.1 to 3.9 contained in appendix 1 of our engagement letter dated 23 January 2015.

## **1.5 Forms of report**

1.5.1 For the Council's convenience, this report may have been made available to the Council in electronic as well as hard copy format, multiple copies and versions of this report may therefore exist in different media and in the case of any discrepancy the final signed hard copy should be regarded as definitive.

## **1.6 Confidentiality and reliance**

1.6.1 Our report will be addressed to the Council. We stress that our report and other communications are confidential and prepared for the addressee only. They should not be used, reproduced or circulated for any other purpose, whether in whole or in part without our prior written consent, which consent will only be given after full consideration of the circumstances at the time.

1.6.2 We agree that an addressee may disclose our report to its employees, officers, directors, insurers and professional advisers in connection with the Purpose, or as required by law or regulation, the rules or order of a stock exchange, court or supervisory, regulatory, governmental or judicial authority without our prior written consent but in each case

strictly on the basis that we owe no duties to any such persons. We also agree that our report may be disclosed to Members of the Council.

- 1.6.3 We have discussed with the Council and agreed that our report can be included on the public part of the council agenda for the Joint Overview & Scrutiny and Audit & Governance Committee on the 18 April 2017. The Council has agreed that the Model will not be included due to issues of commercial confidentiality.

## **1.7 General**

- 1.7.1 The report is issued on the understanding that the management of the Council have drawn our attention to all matters, financial or otherwise, of which they are aware which may have an impact on our report up to the date of signature of this report. Events and circumstances occurring after the date of our report will, in due course, render our report out of date and, accordingly, we will not accept a duty of care nor assume a responsibility for decisions and actions which are based upon such an out of date report. Additionally, we have no responsibility to update this report for events and circumstances occurring after this date.
- 1.7.2 We would like to thank the Council officers for making themselves available during the course of the review.



**Will McWilliams**  
**Partner**  
**Grant Thornton UK LLP**  
**March 2017**

## 2. Financial Model

### 2.1 Financial model options appraised

2.1.1 The Financial Model has been developed to evaluate the following 8 Scenarios:

1. **Current Base** – Under this option the existing site is continued unchanged. This options is calculated to provide comparative figures for operating expenditure and betterment calculation only. This is not considered as a viable option as the Knowle office is in a state of disrepair that requires the corrective actions included in the "Do Minimum" scenario below. The assumptions have been updated since the Original Report.
2. **Do Minimum** – Under the Do Minimum option c£1.9m of capital expenditure, indexation and funding costs, are required to update the existing site to replace windows and other major maintenance. An additional c£1.7m of capital expenditure will be spent developing the Exmouth site to accommodate an additional 90 desks which the Council has previously approved financing for. Operational savings are expected to be small as the nature of the works is essential repair rather than upgrade. The assumptions have been updated since the Original Report.
3. **Pegasus Option** – This reflects the Heathpark development but with work commencing in June 2017. Exmouth is refurbished to accommodate an additional 90 desks. A capital receipt of £7,505,000 is assumed (note we understand 5% has been received and is excluded from the NPV analysis of cash flows from January 2017 onwards)
4. **Pegasus Delayed Option as a result of their planning appeal** – As Scenario 3 but with work being delayed for 19 months, commencing in January 2019.
5. **Alternative Capital Receipt 1 £6.8m following remarketing** – As Scenario 4 but with capital receipt reduced to £6,800,000.
6. **Alternative Capital Receipt 2 £5.8m following remarketing** – As Scenario 4 but with capital receipt reduced to £5,820,000
7. **Alternative Capital Receipt 3 £4.2m following remarketing** – As Scenario 4 but with capital receipt reduced to £4,170,000
8. **Alternative Capital Receipt 4 £3.2m following remarketing** – As Scenario 4 but with capital receipt reduced to £3,220,000

2.1.2 The Model has been developed to compare the cash flows of each of the above options (scenarios 3 – 8) to both the Do Minimum and the Current Base Scenarios cash flows.

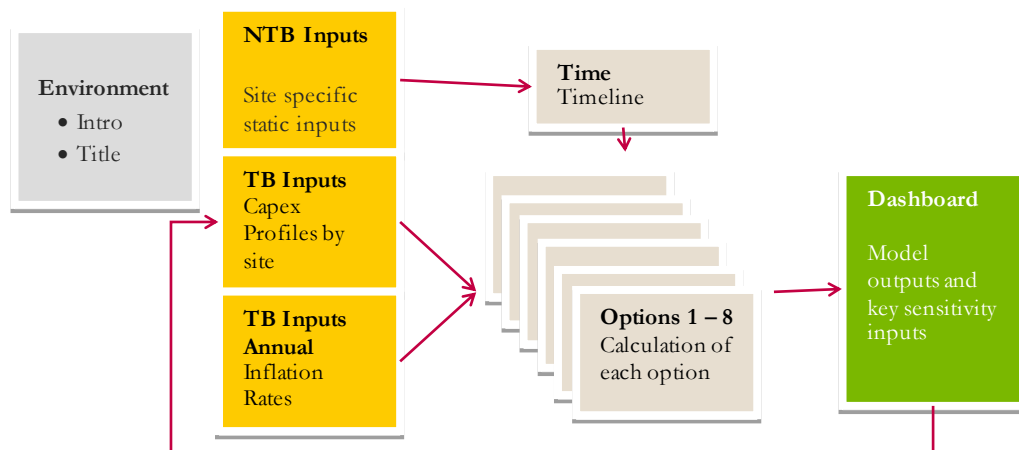
## 2.2 Overview of the Model development

- 2.2.1 The Model has been prepared to calculate the cash flow impact of the options to the Council. It has been developed in line with generally accepted financial modelling best practice principles (<http://www.icaew.com/en/technical/information-technology/excel/twenty-principles>) and designed with functionality to allow the Council to compare multiple options.
- 2.2.2 The remainder of this report summarises the outputs of the revised model which has the additional functionality to allow for NPV analysis. For information purposes only, Appendix A includes the summary of the results excluding the impact of the development of the Exmouth site, on the grounds that the Council has already approved funding for this and work has commenced.

## 2.3 Model Structure

- 2.3.1 The Model is structured to calculate the Options (as defined in section 2.1.1 above) simultaneously. Each option is represented by a worksheet, which is identical to all other calculation worksheets contained within the Model. The Model is structured as per the Figure 1 below.

Figure 1: Model Structure

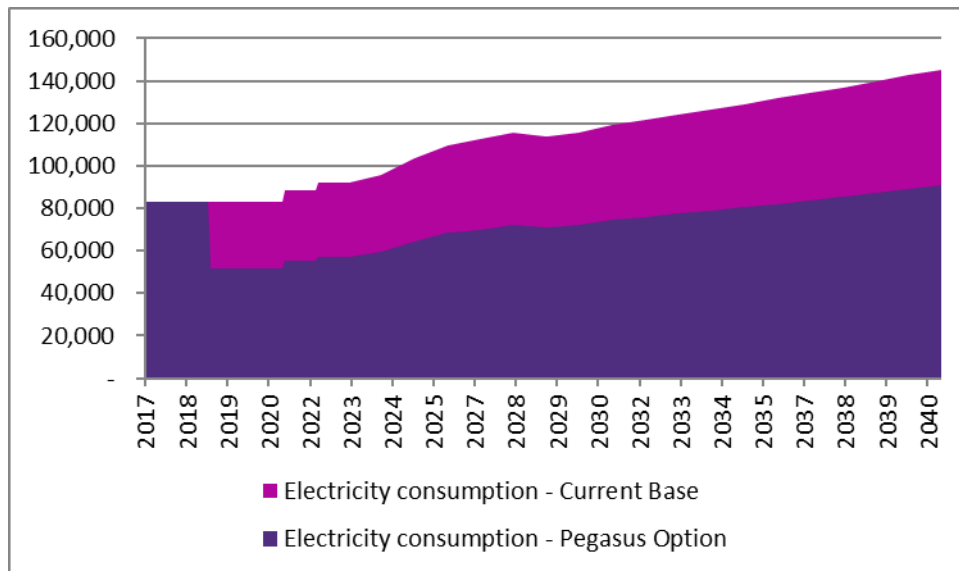


- 2.3.2 The model has been structured so there is a clear separation of worksheets used to capture inputs, worksheets used for calculations and outputs. Inputs are split between Non Time Based ("NTB") and Time Based ("TB").
- 2.3.3 All operational cost inputs were provided by Simon Davey (Strategic Lead - Finance) and Stephen Pratten (Relocation Manager).

## 2.4 Project Cash flow

- 2.4.1 Project cash flows are defined as the cash flows directly attributable to this project. As capital expenditure is expected to be funded via a combination of debt and internal funding the cash outflows represent debt service plus running costs after the Council has relocated and debt service begins. Prior to this date all capital expenditure and associated costs are funded from internal funding and then debt drawdown resulting in negative cash flow for the Council.
- 2.4.2 The proposed Heathpark buildings provide operational cost savings as compared to the Knowle building. The Model calculates these operational savings ("**Betterment**") for each option as compared to the Current Base scenario.
- 2.4.3 Betterment is calculated as the cash flows under the Current Base Scenario minus the cash flow under the chosen Heathpark option.
- 2.4.4 Figure 2 below shows the Electricity consumption Betterment of the Pegasus option against the Current Base option: This is represented by the pink area in the graph in below:

Figure 2: Electricity consumption Betterment Pegasus option vs Current Base



- 2.4.5 Due to the effects of inflation the Betterment increases over time. Table 1 below shows the Betterment for each option versus Current Base.

**Table 1: Betterment vs Current Base**

Scenario	Betterment (£)
Do Minimum	904,611
Pegasus Option	4,648,892
Pegasus Delayed Option as a result of their planning appeal	4,388,568
Alternative capital receipt following remarketing 1	4,388,568
Alternative capital receipt following remarketing 2	4,388,568
Alternative capital receipt following remarketing 3	4,388,568
Alternative capital receipt following remarketing 4	4,388,568

## 2.5 Funding

2.5.1 Construction period cash flows are funded via Council's internal funding and debt drawdown. The funding structure for all options is as follows:

1. Council internal funding – Up to £5m – fully repaid upon drawdown of short-term funding. Interest applied at an input rate.
2. Short-term funding – drawdown to cover all costs up to the date of capital receipt. Interest charged monthly at an input rate.
3. Long-term funding – Drawn to cover short-term funding less capital receipt. Repaid via annuity profile over 20 years from the date of capital receipt. Interest charged at an input rate.
4. Additional Council funding – Used to cover any shortfall in cash requirement to pay debt service on long-term funding after Betterment. This is discussed further below.

2.5.2 Additional Council Funding is used to cover any cash flow shortfall where Betterment does not fully cover the long term funding costs.

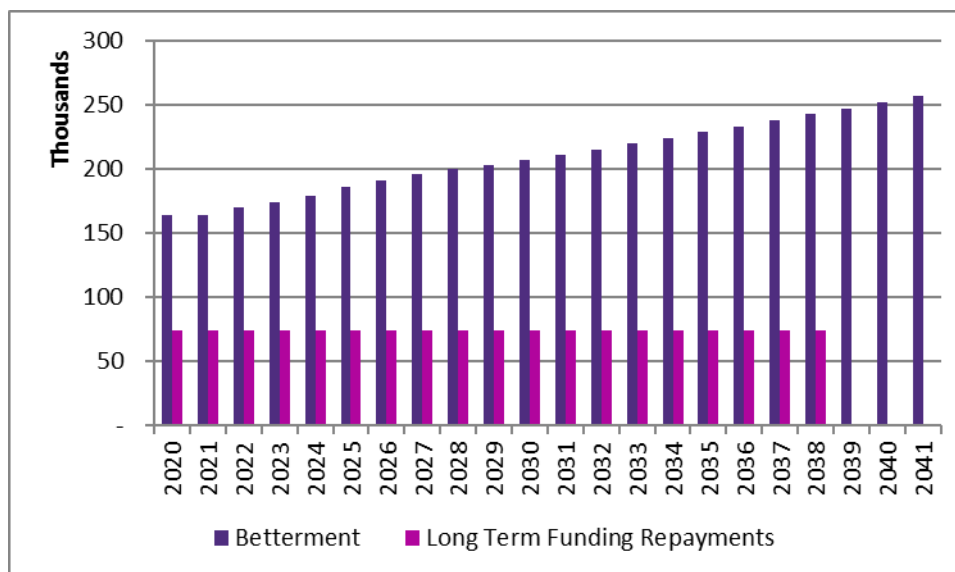
2.5.3 The Additional Council Funding balance represents the net cash flow to the Council. All other cash flows are covered by either funding drawdowns or Betterment.

2.5.4 Short Term Funding is repaid partly by capital receipt. The Council has instructed the provision of an updated RICS Red Book Valuation and Report for Knowle which has identified a range of potential valuations for the Knowle site, varying between £3,220k and £7,505k. For the avoidance of doubt we have not undertaken any validation of the quantum of this capital receipt, because this was outside the scope of our work.

2.5.5 Figure 3 below, the Betterment cash flows exceed the long term funding costs. This is primarily driven by savings in utility costs, maintenance related costs and employee costs. There is however, a higher business rates associated with the new offices at Heathpark which offsets against the benefits. Under the Do Minimum option, annual costs are

estimated at approximately £570k. Under the Updated Costs options, these are approximately £435k.

**Figure 3: Pegasus Option - Long Term Funding Cash flows vs Betterment**



2.5.6 Each option, with the exception of the Current Base and Do Minimum requires external finance as per the table below.

**Table 2: Long Term Finance Drawdown**

Scenario	Total Short Term Funding	Capital Receipt	Long Term Funding Drawdown
Do Minimum	-	-	-
Pegasus Option	8,218,079	7,505,000	1,204,080
Pegasus Delayed Option as a result of their planning appeal	8,907,015	7,505,000	2,015,400
Alternative capital receipt following remarketing 1	8,907,015	6,800,000	2,345,150
Alternative capital receipt following remarketing 2	8,907,015	5,820,000	3,325,150
Alternative capital receipt following remarketing 3	8,907,015	4,170,000	4,975,150
Alternative capital receipt following remarketing 4	8,907,015	3,220,000	5,925,150

## 2.6 Results

2.6.1 Results are displayed on the Dashboard of the Financial Model. The sections below summarise the key results in terms on Council Funding Cash flows and Net Present Value (NPV) analysis.

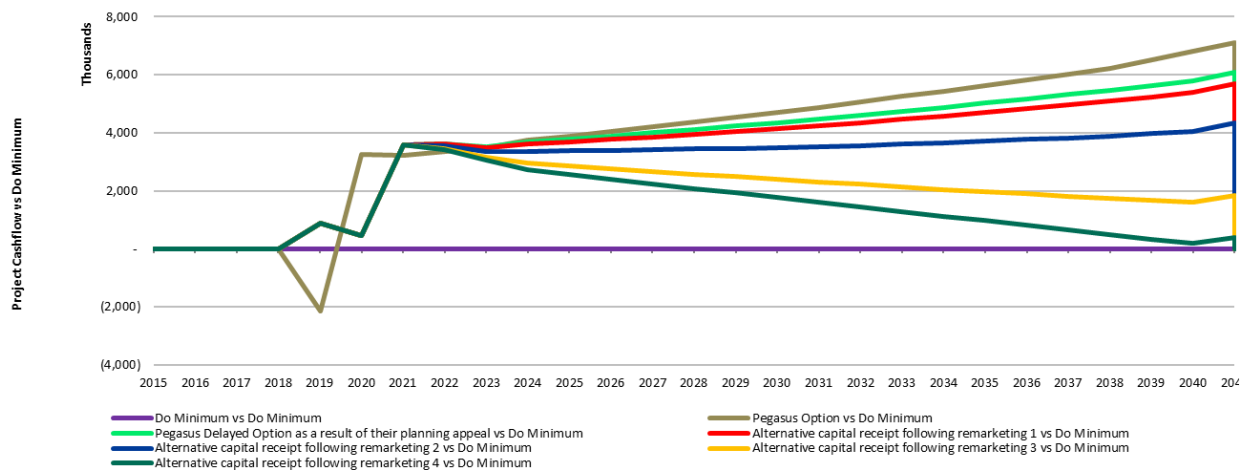
2.6.2 Results are ranked to determine the best option available for the Council solely based upon the financial NPV ranking.

## 2.7 Cash flow Comparison

2.7.1 Each Heathpark option cash flow has been appraised against the Do Minimum scenario. Under the instructions provided to us, all options have had the same period end for the Betterment calculations from their respective point of inception. Figure 4 shows the net Council Cash flow versus the Do Minimum scenario.

2.7.2 It should be noted that under this assessment the cash flows under the Do Minimum scenario are shown as zero as it is the cash flow profile to which all scenarios are compared. This is represented on the graph in Figure 4. These projected cash flows represent an incremental improvement to the Council from the Do Minimum and, for the avoidance of doubt, does not represent a positive cash balance to the Council.

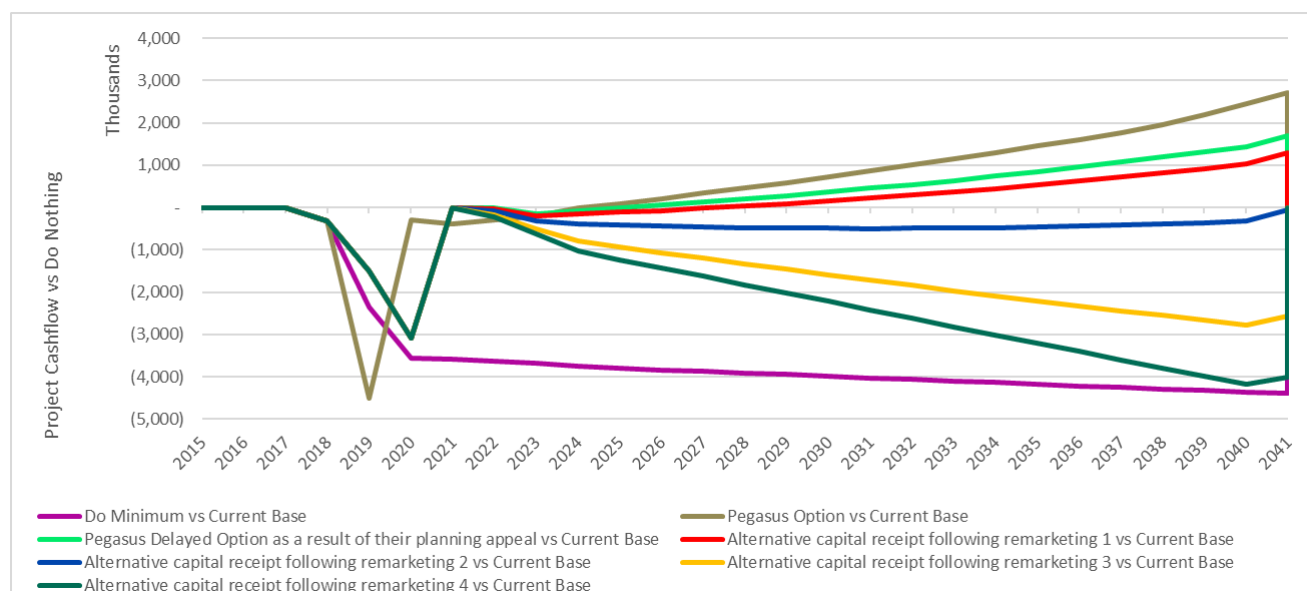
Figure 4: Summary of Cash flows vs Do Minimum



2.7.3 The net Council position should be considered in comparison to the current position of Current Base. Figure 5 below shows the Net Council Cash flow versus the Current Base, which represents the cash flow incremental to the current position.



Figure 5: Summary of Cash flows vs Current Base



2.7.4 The presentation does not change the results, with both graphs clearly showing an incremental improvement in the Councils cash flow in comparison to the Do Minimum scenario aside from the scenario with capital receipt of £3.2m. The results are summarised in Table 3 below:

Table 3: Cash flow

Scenario	Net Council Cash Position	Incremental Cash flow vs Do Minimum	Ranking
Do Minimum	(4,531,529)		6
Pegasus Option	1,404,619	5,936,148	1
Pegasus Delayed Option as a result of their planning appeal	399,091	4,930,620	2
Alternative capital receipt following remarketing 1	(387,620)	4,143,908	3
Alternative capital receipt following remarketing 2	(1,737,699)	2,793,830	4
Alternative capital receipt following remarketing 3	(4,237,605)	293,924	5
Alternative capital receipt following remarketing 4	(5,676,963)	(1,145,434)	7

## 2.8 Net Present Value - NPV

2.8.1 NPV analysis is traditionally used to evaluate projects, where a positive NPV is commonly an indication that the project should be committed to. With only Betterment as a "positive" cash flow it is possible for an option to have a negative NPV. In this case, to ensure a fair appraisal, the NPV of each option should be compared to the NPV of the Do Minimum, to take into account the avoided cash flows as discussed above.

**Table 4: NPV**

Scenario	NPV	Incremental NPV vs Do Minimum	Ranking
Do Minimum	(3,762,238)	-	7
Pegasus Option	789,055	4,551,293	1
Pegasus Delayed Option as a result of their planning appeal	328,870	4,091,108	2
Alternative capital receipt following remarketing 1	134,020	3,896,259	3
Alternative capital receipt following remarketing 2	(492,444)	3,269,795	4
Alternative capital receipt following remarketing 3	(1,615,284)	2,146,954	5
Alternative capital receipt following remarketing 4	(2,261,781)	1,500,458	6

## 2.9 Modelling Conclusion

- 2.9.1 The results detailed above reflect the outputs from the Model named East Devon Council Relocation – v12.01T provided to the Council via email on 27 March 2017.
- 2.9.2 The key cash flows to the Council are Long Term Funding costs and Betterment Costs. The Long Term Funding requirement under each Pegasus option is directly dependant on the capital receipt amount. There is no difference in Betterment between the four delayed scenarios and approximately £250k difference between the Pegasus Option and the delayed options. However, all scenarios offered a benefit in excess of at least £1,500k when compared to the Do Minimum measured in NPV terms.
- 2.9.3 Both the Cash flow Analysis and the NPV Analysis indicate that the Pegasus Option represents best value from a financial perspective compared to the Do Minimum scenario based upon the stated assumption.
- 2.9.4 The conclusions above are based solely on the results of the Model and therefore do not consider any qualitative aspects of the options, and nor have we considered the extent to which the office relocation project will meet the Council's service of efficiency aspirations/objectives.

### 3. Appendix A – Analysis excluding Exmouth development

Figure 6: Pegasus Option vs Current Base Electricity Consumption Betterment (excluding Exmouth)

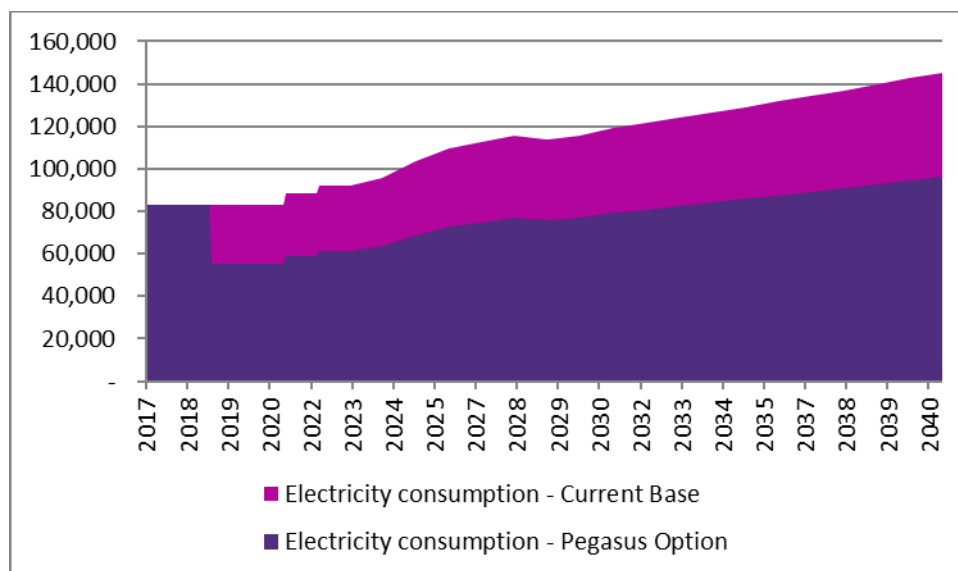
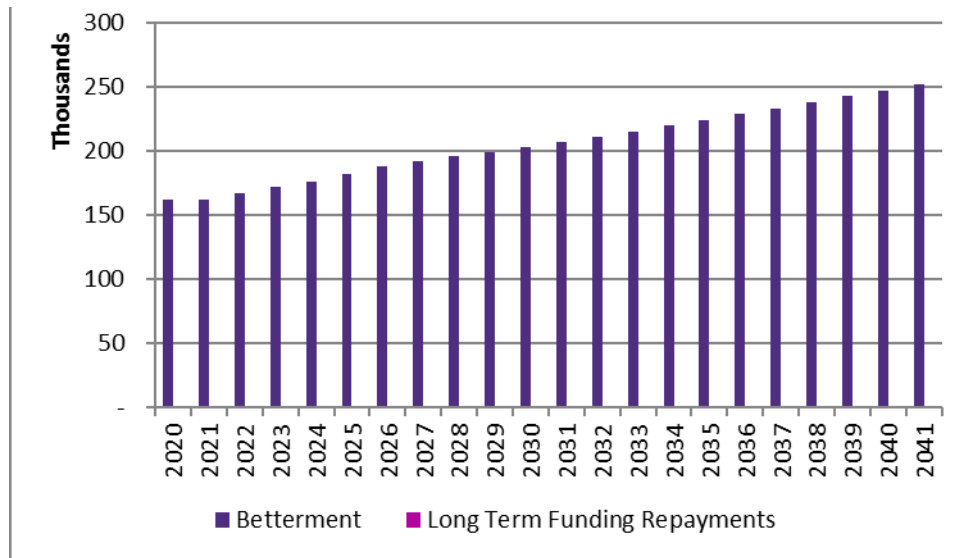


Table 5: 20 year Betterment vs Current Base

Scenario	Betterment (£)
Do Minimum	817,696
Pegasus Option	4,562,167
Pegasus Delayed Option as a result of their planning appeal	4,305,464
Alternative capital receipt following remarketing 1	4,305,464
Alternative capital receipt following remarketing 2	4,305,464
Alternative capital receipt following remarketing 3	4,305,464
Alternative capital receipt following remarketing 4	4,305,464

**Figure 7: Pegasus Option - Long Term Funding Cash flows vs Betterment (excluding Exmouth)**



As shown in the table below, the Pegasus Option (excluding Exmouth) does not draw on long term funding and consequently there are no long term funding repayments in the graph above.

**Table 6: Long Term Finance drawdown (excluding Exmouth)**

Scenario	Total Short Term Funding	Capital Receipt	Long Term Funding Drawdown
Do Minimum	-	-	-
Pegasus Option	6,659,879	7,505,000	-
Pegasus Delayed Option as a result of their planning appeal	7,303,232	7,505,000	410,311
Alternative capital receipt following remarketing 1	7,303,232	6,800,000	740,061
Alternative capital receipt following remarketing 2	7,303,232	5,820,000	1,720,061
Alternative capital receipt following remarketing 3	7,303,232	4,170,000	3,370,061
Alternative capital receipt following remarketing 4	7,303,232	3,220,000	4,320,061

Figure 8: Summary of Cash flows vs Do Minimum

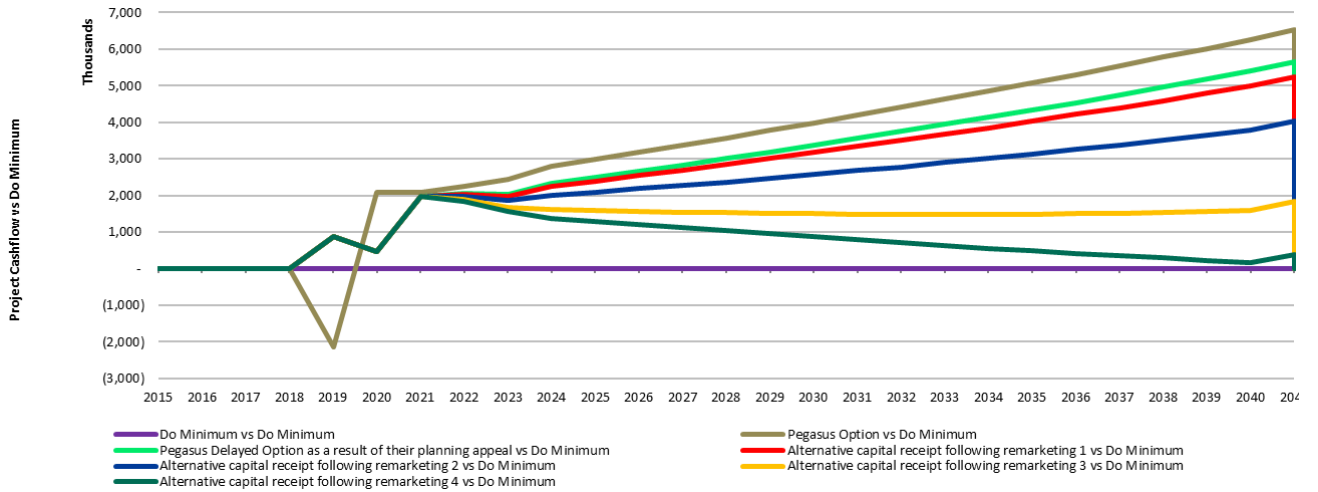
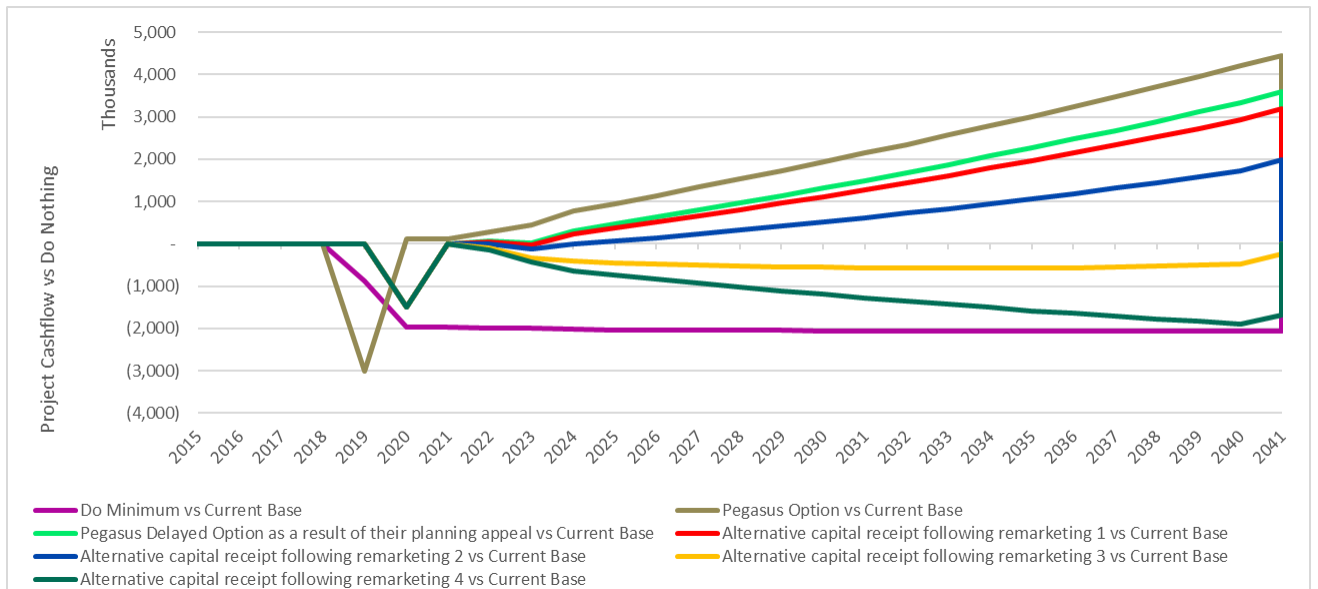


Figure 9: Summary of Cash flows vs Current Base



**Table 7: Cash flows**

Scenario	Net Council Cash Position	Incremental Cash flow vs Do Minimum	Ranking
Do Minimum	(2,050,805)		6
Pegasus Option	3,293,340	5,344,145	1
Pegasus Delayed Option as a result of their planning appeal	2,424,825	4,475,631	2
Alternative capital receipt following remarketing 1	1,645,608	3,696,414	3
Alternative capital receipt following remarketing 2	441,926	2,492,731	4
Alternative capital receipt following remarketing 3	(1,768,927)	281,878	5
Alternative capital receipt following remarketing 4	(3,208,264)	(1,157,459)	7

**Table 8: NPV**

Scenario	NPV	Incremental NPV vs Do Minimum	Ranking
Do Minimum	(1,879,828)	-	6
Pegasus Option	1,855,731	3,735,559	1
Pegasus Delayed Option as a result of their planning appeal	1,342,387	3,222,215	2
Alternative capital receipt following remarketing 1	1,152,089	3,031,917	3
Alternative capital receipt following remarketing 2	584,412	2,464,240	4
Alternative capital receipt following remarketing 3	(445,564)	1,434,264	5
Alternative capital receipt following remarketing 4	(1,092,046)	787,782	7



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## Appendix 2

### Overall Project – Exmouth Town Hall Refurbishment Costs included – “Delay” Option on remarketing scenarios 1 to 4

#### Dashboard

#### Delay Option on remarketing scenarios 1 to 4

	Current Base	Do Minimum	Pegasus Option	Pegasus Delayed Option as a result of their planning appeal	Alternative capital receipt following remarketing 1	Alternative capital receipt following remarketing 2	Alternative capital receipt following remarketing 3	Alternative capital receipt following remarketing 4
<i>Unit: £</i>								
<b>Total Cost by Option</b>								
NPV - Discounted to 1 January 2017	£	(3,762,238)	789,055	328,870	134,020	(492,444)	(1,615,284)	(2,261,781)
Total Operating Expenditure Betterment	£	904,611	4,648,892	4,388,568	4,388,568	4,388,568	4,388,568	4,388,568
Capital Expenditure	£	(3,608,000)	(10,360,950)	(10,871,454)	(10,871,454)	(10,871,454)	(10,871,454)	(10,871,454)
Operating Expenditure Betterment	£	904,611	4,648,892	4,388,568	4,388,568	4,388,568	4,388,568	4,388,568
Capital Receipts	£	-	7,505,000	7,505,000	6,800,000	5,820,000	4,170,000	3,220,000
Interests								
Internal Council Funding	£	(1,828,139)	(59,316)	(96,940)	(96,940)	(96,940)	(96,940)	(96,940)
PWLB Short-Term Funding	£	-	(49,572)	(66,191)	(66,191)	(66,191)	(66,191)	(66,191)
PWLB Long-Term Funding	£	-	(257,108)	(451,310)	(525,151)	(744,604)	(1,114,090)	(1,326,824)
Council Additional Funding Interests	£	-	(22,326)	(8,582)	(16,452)	(167,078)	(647,498)	(924,122)
Drawdowns								
PWLB Short-Term Funding	£	-	8,218,079	8,907,015	8,907,015	8,907,015	8,907,015	8,907,015
PWLB Long-Term Funding	£	-	1,204,080	2,015,400	2,345,150	3,325,150	4,975,150	5,925,150
Repayments								
PWLB Short-Term Funding	£	-	(8,218,079)	(8,907,015)	(8,907,015)	(8,907,015)	(8,907,015)	(8,907,015)
PWLB Long-Term Funding	£	-	(1,204,080)	(2,015,400)	(2,345,150)	(3,325,150)	(4,975,150)	(5,925,150)
<b>Total Net Council Cash Position vs. Current Base</b>	£	<b>(4,531,529)</b>	<b>1,404,619</b>	<b>399,091</b>	<b>(387,620)</b>	<b>(1,737,699)</b>	<b>(4,237,605)</b>	<b>(5,676,963)</b>
Rank		6	1	2	3	4	5	7
Total Operating Expenditure	£	17,880,815	16,976,203	13,231,923	13,492,247	13,492,247	13,492,247	13,492,247
<b>Incremental Cost vs. Do Minimum</b>								
Incremental NPV	£		4,551,293	4,091,108	3,896,259	3,269,795	2,146,954	1,500,458



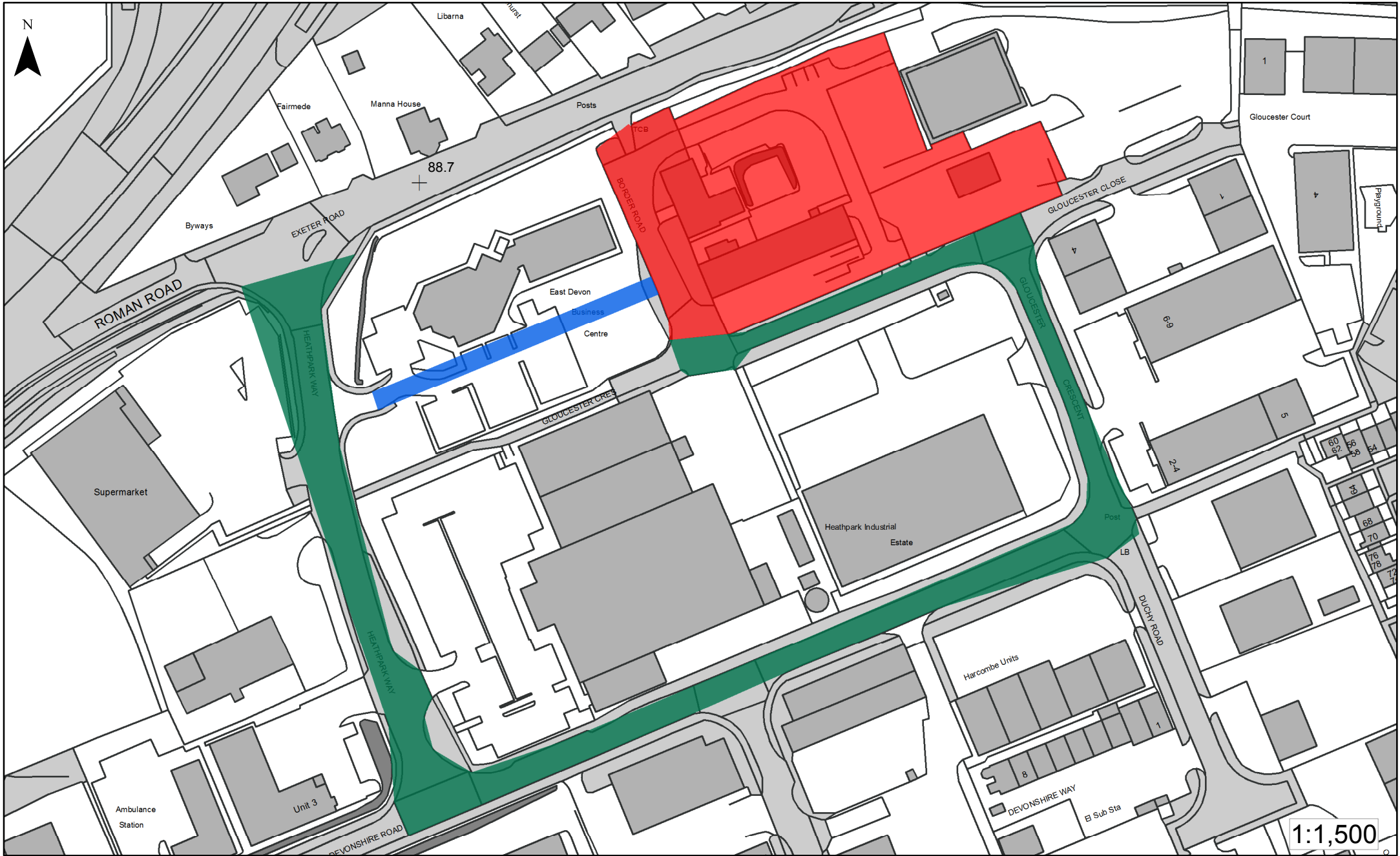
Overall Project – Exmouth Town Hall Refurbishment Costs included – “Pegasus/Go Now” Option on remarketing scenarios 1 to 4




Dashboard

Pegasus/Go Now Option on remarketing scenarios 1 to 4

		Current Base	Do Minimum	Pegasus Option	Pegasus Delayed Option as a result of their planning appeal	Alternative capital receipt following remarketing 1	Alternative capital receipt following remarketing 2	Alternative capital receipt following remarketing 3	Alternative capital receipt following remarketing 4
Unit: £									
<b>Total Cost by Option</b>									
NPV - Discounted to 1 January 2017	£		(3,762,238)	789,055	328,870	668,886	100,926	(999,620)	(1,646,094)
<b>Total Operating Expenditure Betterment</b>	£		<b>904,611</b>	<b>4,648,892</b>	<b>4,388,568</b>	<b>4,648,892</b>	<b>4,648,892</b>	<b>4,648,892</b>	<b>4,648,892</b>
Capital Expenditure	£		(3,608,000)	(10,360,950)	(10,871,454)	(10,360,950)	(10,360,950)	(10,360,950)	(10,360,950)
Operating Expenditure Betterment	£		904,611	4,648,892	4,388,568	4,648,892	4,648,892	4,648,892	4,648,892
Capital Receipts	£		-	7,505,000	7,505,000	6,800,000	5,820,000	4,170,000	3,220,000
Interests									
Internal Council Funding	£		(1,828,139)	(59,316)	(96,940)	(59,316)	(59,316)	(59,316)	(59,316)
PWLB Short-Term Funding	£		-	(49,572)	(66,191)	(194,344)	(194,344)	(194,344)	(194,344)
PWLB Long-Term Funding	£		-	(257,108)	(451,310)	(418,581)	(638,034)	(1,007,520)	(1,220,254)
Council Additional Funding Interests	£		-	(22,326)	(8,582)	(5)	(5,230)	(410,804)	(687,395)
Drawdowns									
PWLB Short-Term Funding	£		-	8,218,079	8,907,015	8,708,258	8,708,258	8,708,258	8,708,258
PWLB Long-Term Funding	£		-	1,204,080	2,015,400	1,869,243	2,849,243	4,499,243	5,449,243
Repayments									
PWLB Short-Term Funding	£		-	(8,218,079)	(8,907,015)	(8,708,258)	(8,708,258)	(8,708,258)	(8,708,258)
PWLB Long-Term Funding	£		-	(1,204,080)	(2,015,400)	(1,869,243)	(2,849,243)	(4,499,243)	(5,449,243)
<b>Total Net Council Cash Position vs. Current Base</b>	£		<b>(4,531,529)</b>	<b>1,404,619</b>	<b>399,091</b>	<b>415,695</b>	<b>(788,982)</b>	<b>(3,214,043)</b>	<b>(4,653,367)</b>
Rank			6	1	3	2	4	5	7
Total Operating Expenditure	£	17,880,815	16,976,203	13,231,923	13,492,247	13,231,923	13,231,923	13,231,923	13,231,923
<b>Incremental Cost vs. Do Minimum</b>									
Incremental NPV	£			4,551,293	4,091,108	4,431,125	3,863,164	2,762,619	2,116,145

# Appendix 3: Access Road Options for the New HQ Office, Honiton



-  New HQ Office Site
-  Proposed Current Access
-  Proposed Direct Access through East Devon Business Centre Site

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