

Future of the Shire Hall Campus, Cambridge

To: Strategy and Resources Committee

Meeting Date: 6 July 2021

From: Tom Kelly, Director of Resources

Electoral division(s): Castle

Key decision: Yes

Forward Plan ref: 2021/040

Outcome: If approved the outcome from this report will be an agreed commercial position that will enable officers to enter into formal contractual arrangements with Brookgate (the developer), a apart-hotel operator and a funder thereby resulting in the disposal of the original Shire Hall building on a long lease for hotel use, and the redevelopment of the Octagon and Old Police House buildings as modern office accommodation.

Recommendation: It is recommended that the Committee:

- a) note the updated commercial arrangements as set out in the report;
- b) note the due diligence report of the proposed hotel provider as set in confidential Appendix 3;
- c) approve the commercial proposals as set out in confidential Appendix 2 including the revision of the revenue / capital split described in section 8 and 9 of this report;
- d) note the resulting provision of office accommodation across the County as a result of the whole Cambs 2020 programme, and commit to keeping this closely under review as office usage changes post-pandemic, addressing areas where there is a shortage of service provision emerging, as described in section 1.5; and
- e) delegate agreement of the final terms and consequential or minor amendments to the contractual documentation, as set out in paragraph 10.6, to the Director of Resources in consultation with the Chair & Vice Chair of this Committee.

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1. Background

- 1.1 In 2018, following analysis commissioned from external specialists the Council decided that the future options for Shire Hall could not include a “do nothing” approach of the campus remaining the largest operational office accommodation without redevelopment. Subsequently a new, much smaller, civic hub building has been constructed at Alconbury Weald and is due to come into the Council’s possession during July. Plans are now well developed for investment and redevelopment into Shire Hall, Cambridge.
- 1.2 Initially, the reason for considering this were driven largely by the opportunity to gain better value from the asset portfolio and delivering an additional funding stream, taking account of the challenges set out in the Medium-Term Financial Strategy. The programme quickly evolved, however, into a more strategic review of how the property portfolio could more efficiently support the organisation’s workforce to deliver services to the communities it serves. Through the Cambs 2020 programme the Council has acquired the Bernard Sunley Building in Papworth and invested in “spoke” assets at 16 other locations across the County. In some areas of the county, this aids an approach which will be more devolved, delivering services as part of neighbourhood working, locating services close to the communities they serve.
- 1.3 The principal details of commercial proposal now before the Council for Shire Hall, Cambridge is (in short) to:
- Convert the Shire Hall building and the Castle Lodge area to a **255 room apart-hotel** (the façade of Shire Hall is retained, however there would be a major reconstruction inside the building to achieve this and a new annex to replace Castle Lodge)
 - Convert and refurbish the Old Police House and the Octagon **into modern office accommodation**, respecting the listed status of the Old Police House and significantly improving the outward aesthetic of the Octagon
 - Remove the front pay & display car park facing Castle Street, enlarging and enhancing the green space in front of Shire Hall and improving the **public realm** around Castle Mound and access to it
 - the Council retain the freehold of the whole site, with a lease to the hotel operator for the hotel area. The Council can **end the leases in 40 years’ time for £1**. The project operates as an income strip (explained further in section 8).
- 1.4 In May 2021, a new joint administration took control of the Council. This provides an opportunity to check the assumptions and opportunities relating to this major commercial decision, alongside a recognition of operational and workforce changes the Council has already implemented and the other constraints at this stage at Shire Hall. This report therefore begins by exploring a range of alternative futures for Shire Hall, before proceeding to describe in more detail the worked-up proposition now before the Council for consideration.
- 1.5 The wider Cambs 2020 programme is nearing completion for delivery of the new civic hub and a revised distribution of Council teams in localities through the spokes model. Reviewing the projected pattern of Council office accommodation across the County relative

to district populations, this indicates a higher level of office presence or capacity in Huntingdonshire and Fenland compared to relatively less capacity in South Cambridgeshire, East Cambridgeshire and Cambridge City. As part of its approach to neighbourhood working, the Council is committed to ensuring its services are close to communities and aligned to best meet need. It is also recognised that actual utilisation of office accommodation is currently an uncertainty as working patterns develop emerging from the pandemic. The Council will keep this closely under review and take up opportunities to ensure further provision of space for services as appropriate particularly in those areas that are underserved by the Cambs 2020 distribution as it currently stands.

2. Future of Shire Hall: options considered

- 2.1 During 2018, the Council instructed Strutt & Parker to lead a marketing process for Shire Hall. 30 proposals were received, 10 organisations were long listed and 5 organisations were shortlisted. The initial proposals included a wide range of potential uses (hotel, private rental residential, student accommodation, retirement, residential sales and offices). The shortlisting was overseen by a four Member panel. The favoured option selected, which has developed into the detailed proposal at this meeting, had the most advantageous financial net present value and the details set out at paragraph 1.3 above. The following paragraphs present potential alternatives to this approach, drawing on rival bids at the shortlisting/longlisting stage, or the more detailed analysis which forms part of the worked up proposition.
- 2.2 **100% office space: Refurbishment & reinstatement of Shire Hall as a civic HQ**
- 2.2.1 In the original analysis conducted by consultants, from a non-financial perspective, retaining Shire Hall with its current use had outscored other locations for accessibility, place, time and build cost risk.
- 2.2.2 The accessibility and place of Shire Hall remain very strong (and core to its underlying value for any option) but by 2021 the situation with respect to the other factors has moved on. The imminent delivery of Alconbury Weald means that the Council now has an alternative hub available, whereas Shire Hall has been gradually decommissioned following the closure of the main building for much of the pandemic, commencement of some initial survey works and the relocation of staff previously based there.
- 2.2.3 It has long been problematic that Shire Hall (which is nearly 90 years old) is not configured as a modern working environment (this is exacerbated by covid-19 safety) nor is it a sustainable or environmentally friendly building. Shire Hall has poor space utilisation in its current configuration: the net internal area is 45,000 sf ft whereas the gross internal area is 71,000 sf ft. Our outline estimate is that it would cost in the region of £20m (with associated time and build cost risks) in order to refurbish and reinstate Shire Hall with a optimised use of space and a useful life as an office for the next quarter of a century or more.
- 2.2.4 The main proposal before the Committee includes provision of significant office space on the Shire Hall campus through the refurbishment and redevelopment of the Octagon and Old Police House buildings. At this stage, this is considered to be the best route to ensuring long-term and fit-for-purpose office accommodation on the current site. The Council will be the landlord for that accommodation once refurbished and it will be open to the Council to determine the best usage, including the possibility of occupying some of that space itself.

2.3 Alternative uses: residential/residential/retirement

- 2.3.1 Eight of the ten shortlisted proposals for redevelopment of Shire Hall included a hotel. Most of the hotel uses blended a mix of student accommodation, offices or residential alongside that, including the preferred bidder. Discussions with planners have generally favoured a hotel use. The preferred bidder's approach, which has progressed to the proposal before the Committee today, was favoured at selection stage as it offered both a capital sum and a recurring revenue return and the opportunity to 'buy-back' in 40 years for £1. Subsequently, the preferred team has also been able to demonstrate delivery at similar projects in North Cambridge and in London.
- 2.3.2 The highest scoring alternative proposals at longlisting stage for predominantly student accommodation, office-led, residential or retirement schemes were for outright sales of the site for capital sums ranging between £14m and £25m, reflecting the relative yields and typical design requirements of such schemes. These were therefore significantly worse prospects, in financial terms, than the leading proposal which offered a capital receipt of a similar or higher order, alongside a recurrent revenue income.
- 2.3.3 For the Council's part, there is already exposure within the County's asset portfolio to student accommodation at Castle Park (through the Castle Court scheme which was also redeveloped in the last decade) as well as competitor schemes in the vicinity (and the Council directly owns a large student accommodation complex on Newmarket Road). In its role as a commissioner of social care services, the Council is also encouraging the development of accommodation for Older People, however analysis suggests that there are more pronounced deficits of provision outside of Cambridge City. This contrasts to the advice we have received with respect to hotel (and apart-hotel) provision in Cambridge, with the city being nationally competitive from this perspective and where there is a significant deficit in supply and barriers to entry for hotel operators.

2.4 Alconbury Weald

- 2.4.1 The Council takes possession of the completed Alconbury Weald building during July 2021. The building will be fully equipped with modern technology enabling audio-visual conferencing and has significant environmental benefits (including a solar carport array). The building is designed to be fully accessible for people with disabilities, but it is also recognised that public transport access to Alconbury Weald is more restricted than expected at the time the location was selected. The Council is mindful of this and committed to ensuring accessibility for staff and citizens – we will monitor any difficulties that arise in that respect.

3. Project Appraisal

- 3.1 Although the Council has its own financial model that evaluates the overall deal throughout the 40-year period (a summary of which is set out below) there is also a formal financial appraisal framework. This provides a transparent process that uses all the constituent parts of the commercial deal to provide a net capital acquisition value.
- 3.2 Throughout the commercial discussions and the evolution of the design of the proposals, the financial appraisal has been updated to reflect these changes. This has included initial feedback from the City Council planners on the massing of the office accommodation in the

original proposals. Since the Commercial and Investment (C&I) Committee last considered the financial appraisal in June 2020, several revisions to the proposal have taken place including changes to construction costs and rental streams and the residual capital value.

- 3.3 A comparison of the latest appraisal to that which was presented in summary form to the C & I Committee in June last year is set out in Appendix 2 of this report. The latest appraisal is supported by a Stage 1 design document produced by the developer. The design proposals will continue to evolve over the coming months but this document serves as a helpful position from which to monitor iterations.

4. Construction

- 4.1 The proposal considered by the Commercial & Investment Committee in 2020 was predicated on the internal reconstruction necessary to convert the current office accommodation into a hotel. This methodology would have retained the internal structures of the building that are 90 years old, leading to concern about the risk of latent defects. These liabilities would in turn become the responsibility of the hotel operator under a Full Repairing and Insuring lease which would be a major contractual hurdle. Neither the Council nor the developer was prepared to accept the risks associated with that proposal and, given the nature of the proposal, the ability to obtain insurance cover to negate this risk was not possible.
- 4.2 As a consequence of this and following feedback from planners, the developer revisited the complete design proposal for the site. This included the construct of the hotel, the positioning of the office accommodation and the creation of a hotel annex that could cater for longer stay bookings. It also provided the opportunity to revisit the communal areas of the site. A summary of the proposed construction is set out below.
- 4.3 The entire internal structure of the existing Shire Hall building shall be dismantled and removed from behind the retained facades. The new structure shall be a reinforced concrete (RC) framed structure. The retained facade shall be restrained at slab levels. A Ground Investigation shall be carried out to establish the details of the existing foundations and of the bearing capacity of the subsoil, to inform the design of the new foundations.
- 4.4 The existing Octagon robust 1970 RC framed structure is to be retained as offices. An additional floor shall be added over the entire building and the central area of the roof shall be used for plant. The existing Precast Concrete facade panels shall be removed and replaced with a lightweight cladding system. The central area of slab, contained by the four primary columns and linking beams, shall be removed and reconstructed to incorporate new lifts, stairs, and services risers. The basement shall accommodate plant and cycle stores and other ancillary use, with additional natural light.
- 4.5 The existing Registrars building shall be demolished and replaced by a new RC framed construction. The new structure shall be a reinforced concrete framed structure.
- 4.6 The design life for the new buildings and/or structural elements is 50 years as per Design Life Category 4, allowing for reasonable maintenance.
- 4.7 Shire Hall is one of the most environmentally inefficient buildings in the council's property portfolio. Since the Council commenced this disposal process, it has declared a climate

emergency and created a new strategic priority whereby all buildings owned and occupied by the Council should be heated without fossil fuels by 2025, and emit net zero carbon emissions by 2050. The original construction proposal put forward by the developer for the Shire Hall element of the proposal would have retained a significant proportion of the original building and the inherent carbon inefficiencies of the building.

4.8 It is possible to significantly improve the environmental quality of the building which aligns with the Council's strategic objectives in respect of the carbon footprint of the buildings that it is responsible for. As a consequence of the new proposal:

- The development is seeking to deliver BREEAM Excellent for both the hotel and the Octagon office.(BREEAM is a methodology for assessing building sustainability)
- The Old Police Station which will refurbish a grade 2 listed building will be more challenging and therefore BREEAM Very Good is likely to be achievable.
- The design life for the new buildings and or structural elements is 50 years as per Design Life Category 4 (design working life is the period of intended use, with maintenance but no major repair anticipated, for a structure).
- The hotel, the annex and the Octagon office will be air conditioned by Air Source Heat Pump (ASHP) utilising Virtual Routing and Forwarding (VRF) technology. The domestic hot water generation in both the hotel and office will similarly utilise ASHP's to generate the hot water. The only gas installation envisaged is for the hotel kitchen if confirmed as a requirement by the hotel operator in due course.
- In addition to utilising ASHP technology to provide heating, air conditioning and hot water generation the developer is currently investigating the potential to install Solar Panels.

5. Environmental Improvements

5.1 In addition to the structural improvements set out above, the latest proposal includes significant enhancements to the environmental layout of the site. These are summarised from the stage report as:

- Mixture of landscape character areas; formal & wild;
- Elevated views of Shire Hall from Castle Mound;
- Framed views of Castle Mound from Shire Hall;
- Castle Mound and Civil War Earthworks SM's to be maintained and enhanced, improving the statutory public right of access;
- Preserve the historic integrity of the Grade II-listed police station and 42 Castle Street, and enhance the landscape setting;
- Incorporate Buildings of Local Interest guidance and the conservation area management plan recommendations;
- Assess the value of the existing fauna, flora and wildlife and integrate them into the emerging proposals;
- Create a more functional, versatile public realm with a range of scales, character and purpose;

- Create new, welcoming and accessible public entrances into the site;
- Provide an integrated setting for all the buildings with 'joined up' pedestrian routes linking pocket parks to wider open spaces;
- Celebrate the rich historic value of the site while future-proofing it for the next generation;
- Review and retain key existing trees, and introduce an enhanced and diverse palette of plants;
- Make the most of the panoramic views from Castle Mound over the city;
- Create a new legible and 'green' approach to the Octagon;
- Enhance the public space between Castle Street and Shire Hall by removing the car park and creating new open green spaces;

5.3 A pictorial illustration of plans for the site is below:



As can be seen this design provides for much greater green space which will improve public access to the scheduled ancient monument and improve the thoroughfare by guests and the public through the site.

6. Hotel Rent Free Period

6.1 The commercial deal has always included a rent guarantee from the developer for the office accommodation for an initial period. The developer aligned a hotel provider at the early stages of the commercial negotiations. During the commercial discussions and particularly following the uncertainties in the hotel industry in a post Covid environment, the hotel provider has negotiated a rent-free period.

6.2 To ensure that the council is not exposed through reduction in revenue for that period, as the Council will still be required to make payments to the funder, provision has been made in the financial model to cover this sum. As a result, the Council will be capitalising this revenue cost against the capital receipt. We have not stated the length of the rent free period in this public report for commercial reasons.

7. Heritage

7.1 Given the special nature of the site, its heritage has always been an important consideration for the Council. When the original marketing was undertaken this point was highlighted and all proposals were asked to set out how public access and the visitor experience would be enhanced through their proposals.

7.2 The additional investment in landscaping is a significant element of the enhancements to the experience of visiting the site.

7.3 The approach to heritage issues on the Shire Hall site covers three main areas:

- Site Management and Access
- Development Related Archaeology
- Interpretation and Presentation

7.4 Discussions have taken place with the Council's Historic Environment Team and the developer's heritage contractor, Cambridge Archaeological Unit, to discuss the proposals as set out in their Design Stage 1 document. The following is a summary of the key matters highlighted by the Council's team.

7.5 Site Management & Access

7.5.1 The latest proposals contain a set of significant changes to the original plan as follows:

7.5.2 The removal of the front car parks and their replacement with grassed areas that forms a pocket park: removing the car parks will create a more welcoming aspect onto the whole site. There are however some archaeological issues that need to be clarified before any works commence.

7.5.3 A more defined public access route onto the site by changing the main pedestrian access to be more prominent.

The proposed location aligns roughly with the location of the gatehouse therefore discussions have taken place to mark the location of the gatehouse and use it as the 'main entrance' to draw visitors through thus raising the profile of the whole site.

7.6 Development Related Archaeology

7.6.1 The latest proposal includes additional investment in archaeological surveys and contingencies for any costs arising from them. These are required under the National Planning Policy Framework and administered by the Local Planning Authority. CCC Historic Environment Team is the archaeological adviser to the Greater Cambridge Shared Planning

Service and will require these surveys as part of their consideration of the planning application.

7.6.2 The new proposal for construction at Shire Hall includes more ground disturbance than the original remodelling and thus has greater archaeological implications. The planning process requires a process of assessment of significance, understanding of harm caused by the development and then mitigation of that harm, either by design or recording (fieldwork).

7.6.3 The change in design for Shire Hall means that areas that were originally to be left undisturbed, i.e., the inner courtyards, will no longer be so. The addition of a sub-basement will pierce an additional 3m into layers potentially previously undisturbed since Roman times. The revised scheme has greater archaeological impacts than that originally submitted, but it also represents a real opportunity to increase and enhance our understanding of the story of the site.

7.6.4 Assessment of significance is usually undertaken by a combination of remote sensing and desktop survey. Ground Penetrating Radar (GPR) has already been undertaken across the site and sufficient desktop assessment already exists. The only remaining aspect to understand is the extent of survival of deposits beneath Shire Hall and surroundings.

7.6.5 The GPR identified several areas of interest for further investigation to understand the signals received. The developer also requires some geo-technical test pitting to inform the structural designs for the hotel. The new proposals for the Octagon are however less intrusive than previously proposed, but there remains the intention to re-profile the Cromwellian earthworks back to their original shape (subject to approval by Historic England).

7.6.8 CCC's Historic Environment Team had agreed in principle to minimal pre-application fieldwork for this scheme. This was due to existing assessments of significance and a low level of intrusion arising from the development proposals at the time. The new proposals for the site, especially for works in and around Shire Hall itself are more intensive and potentially harmful.

7.7 Interpretation and Presentation

7.7.1 Improving the presentation and interpretation of the site is still under discussion but the general principles have been agreed. There are several elements to the proposals:

- Onsite interpretation materials (boards and possible supporting Augmented Reality (AR) items
- A 'landmarks board' on the top of the mound pointing out key features, again with possible AR
- Use of the hotel front of house areas for objects and images

7.8 Relations with Historic England

7.8.1 As the site contains two scheduled monuments, Historic England will need to be involved. Previous discussions with HE have confirmed that they are content for the detail to be agreed between ourselves and the developer and a full proposal to be given to them for final approval.

8. Income Strip and Financial Model

- 8.1 The commercial proposal is structured as an income strip. This is a forward funding arrangement, related to a property asset, which have been used by a number of local authorities. In the proposal for Shire Hall,
- the institutional investor (a pension fund) and developer delivers the asset and takes on the development risk. There is both a 999 year lease for all of the buildings and a 40 year sub-lease on to the hotel operator for the hotel area.
 - the Council receives an annual income (through rent) from the Shire Hall campus,
 - the Council retains responsibility for some overall management, maintenance and residual value of the asset
 - the Council pays on to the institutional investor a proportion of the rent received, thereby providing an inflation linked income stream to investor, with a strong covenant backed by a local authority
 - the Council retains the rent received over and above the proportion guaranteed to the investor (also known as “profit rent”)
 - all the assets would return to the Council at the end of the hotel lease in 40 years
- 8.2 In order to evaluate the financial implications of the commercial proposal over the life of the deal, in net present value terms, and to consider the implications of any changes throughout the commercial negotiations the Council established a financial model. Net present value is a mechanism for calculating today’s value of future anticipated cashflows. The model has been used to provide a summary of the financial implications of the deal to the Committee on a number of occasions.
- 8.3 All of the issues set out in this report have been built into an updated version of the financial model. The Commercial and Investment Committee last considered the financial detail of the proposition in June of last year when considering the draft heads of terms.
- 8.4 There has been a £3.2m adverse change as a result of the Council’s inability to invest the capital receipt generated in income generating proposals as a result of the Public Works Loan Board (PWLB) changes as highlighted in the paper that the C&I Committee considered in 2020. The latest projections also make provision for the hotel rent free period, the enhanced construction costs, and the costs associated with the disposal.
- 8.5 Given the revised construction model proposed for Shire Hall it is likely that the value of this element of the site will have greater value than was proposed in the original financial model but given that this will not arise for 40 years no additional adjustments have been made. The financial model only takes account of the revenue and costs associated with the proposed development and therefore does not include any provision for the costs that the Council would have incurred had it retained the site. Shire Hall consumed more revenue and capital investment on an annual basis than any other property in the Council’s portfolio. Capital maintenance alone was running at around £600k per annum.

- 8.6 A summary of the financial projections over the life of the commercial deal are set out below. When last considered by a Council committee, the proposal was that the Council guaranteed 61.5% of the rent to the funder:

61.5% rent cover to Funder		
Capital Receipt (net of Council's costs)		29,344,109
Interest Income/Debt repayment	4.40%	51,645,632
Residual Value		124,196,187
Management Costs	200,000 pa	(15,080,252)
Letting Costs	10.00%	(797,339)
Void Costs	12.00 psf	(3,102,792)
Refurb Costs	50.00 psf	(5,540,700)
Council Income Strip Rent (RPI Increase)	(3,146,543)	(237,253,302)
3rd Party Income		
Ground Rent Receivable		n/a
Hotel (Subject to annual CPI increase)	3,823,500pa	241,367,616
Office (market value increases inc. Rent Cover)	35.00 psf	63,419,881
Net Profit / Loss		248,199,040
NPV	5.00%	66,826,910

- 8.7 The next section considers revising the approach to capital / revenue split, by reducing the rent cover paid to the funder alongside a reduction in the up front capital payment. The reasons for this are set out in more detail in the next section. Setting the rent cover at 50% produces the following result.

50% rent cover to Funder		
Capital Receipt (net of Council's costs)		13,658,814
Interest Income/Debt repayment	4.40%	24,039,513
Residual Value		124,196,187
Management Costs	200,000 pa	(15,080,252)
Letting Costs	10.00%	(797,339)
Void Costs	12.00 psf	(3,102,792)
Refurb Costs	50.00 psf	(5,540,700)
Council Income Strip Rent (RPI Increase)	(2,558,165)	(192,888,864)
3rd Party Income		
Ground Rent Receivable		n/a
Hotel (Subject to annual CPI increase)	3,823,500pa	241,367,616
Office (market value increases inc. Rent Cover)	35.00 psf	63,419,881
Net Profit / Loss		249,272,064
NPV	5.00%	68,629,741

9. Use of capital receipts and increasing revenue retained

- 9.1. Since the Commercial and Investment Committee last considered the financial model the Government have issued new rules regarding the use of borrowing from the Public Work Loans Board. Although this might appear to have no direct effect on the Council's ability to use capital receipts generated from the disposal of Shire Hall, the nature of the new rules has effectively removed any opportunity to make further commercial investments where the purpose is primarily to make profit. Councils are now prohibited from including any acquisition projects within their capital programmes that include investments primarily to generate profits.
- 9.2 Therefore any council wishing to borrow funds from the PWLB at any point cannot plan to make any such investments irrespective of whether they are funded through borrowing or any other funding sources. Given the level of borrowing that the Council has planned to support the delivery of schools, highways, carbon reduction schemes and other programmes, using the capital receipts to invest in commercial acquisitions is not a realistic option.
- 9.3 The financial model for the programme had assumed that investments in commercial acquisitions would generate an annual return of 5% on the capital value - that will no longer be possible. The Council can still use the capital receipt generated from the sale in order to fund other projects within the capital programme.
- 9.4 The Council has considered whether to convert the capital receipt to a reduced payment

thereby creating an additional revenue stream directly from this project. The joint administration have requested detailed consideration of this alternative, mindful both of the direct financial impact on the Council, assuming full occupancy, as well as the potential for this adjustment to reduce the Council's risk exposure should there be a disruption, over the following 40 years, to the rental income streams

Scenario	Total Rent	Paid to funder	Rent to CCC (remainder)	Capital to CCC
61.5% rent	£5.12m	(£3.15m)	£1.97m	£29.34m
50% rent	£5.12m	(£2.56m)	£2.56m	£13.66m
45% rent	£5.12m	(£2.30m)	£2.81m	£6.25m

9.5 We have compared these scenarios in absolute cash terms, contrasting the additional rental revenue retained to an assumption that the capital values can be invested to decrease borrowing and thereby interest and borrowing. These produce similar cash results over 40 years (all within £1m), with 50% rent cover the marginally optimum option. Section 8.7 also compares this option in net present value terms to 61.5% shown in section 8.6, and this also shows an improved net present value.

Taking a view across risks and returns including that:

- capital receipts provide an upfront flexibility in determining funding of the capital programme
- the potential to increase revenue income retained in relation to this site as well as the flexibility to decide on the use of office space in future,
- the inflation sensitivity risk that the guaranteed income payable to funder rises faster than the rental income actually received in relation to the asset
- scope to reduce the exposure to rental risk over the lifetime of the project (for example were the hotel operator to default at somepoint during the least term)

the recommended approach is to reduce the rent guarantee to 50%.

10. Key Risks

10.1 The programme has a detailed risk register covering the various aspects of the programme. However a number of specific risks that have either become apparent or have changed since the last time the C&I Committee considered this proposal are set out below:

10.2 Cambridge Hotel Market:

10.2.1 Since the Council approved a proposal that included the redevelopment of Shire Hall as a hotel facility it has become clear that the operator have plans to develop the provide a similar facility in a nearby area of Cambridge. This raised concerns about market saturation and therefore the Council sought clarification of the Company in respect of its view of the Cambridge market and how it was planning to differentiate between the two sites given the proximity of them to each other.

10.2.2 The following response was received:

We are very comfortable with the total number of bedrooms we will have in Cambridge regardless of them being spread over two properties. In the same way we (or many other brands) have multiple hotels in many strong cities / markets.

Shire Hall offers a slightly more relaxed setting than the other site and guests naturally seek a preference. Shire Hall will also have a slightly lower price point as it is a little further (albeit not far) from the city centre.

The room sizes in each property are also different which will again differentiate the properties.

We prefer to take a number of aparthotels in strong locations rather than spread into weaker target towns. Cambridge has strong leisure and corporate demand which has been in evidence for many decades, and crucially, high barriers to entry. The market cannot therefore become flooded with hotel supply as price, planning and the physical constraints of the city will always limit the pipeline of hotel rooms.

10.3 Cambridge Office Rental Market:

- 10.3.1 The effect of the pandemic has been felt right across the Cambridge property market, however the impacts have not been evenly spread. Retail, and to some extent offices, have fared less well as successive lockdowns have forced people to live, work and shop from home, resulting in some short and longer-term impacts for these sectors.
 - 10.3.2 The Octagon conversion will be to BREEAM Excellent and will be available in 2025 when the market is expected to have settled, after COVID, to a new normal.
 - 10.3.3 Cambridge has proved resilient over the years and despite the current difficulties it is expected to remain so. The property market will continue to benefit from the city's global draw as a centre of research and innovation pulling in business and people. Cambridge remains a target for property investors with its strong prospects of rental and capital growth. A limited development pipeline of offices will exacerbate the low supply issues putting upwards pressure on rents and values. Well-located freehold property across all sectors remains in high demand. Refurbished offices with a focus on quality are currently attracting enhanced rents. By 2028 the Government will require a minimum of EPC B for leased offices. Shire Hall campus is currently EPC C.
 - 10.3.4 There is some uncertainty in the office market but now is a good time to design a high quality, flexible building for the post COVID market which can be future proofed for increasingly climate change aware tenants and to comply with changing Government regulations.
- 10.4 Financial stability of the hotel provider:
- 10.4.1 Whilst not a new risk, the impact on Covid 19 on the hotel industry has certainly heightened this risk. Independent consultants were commissioned to undertake this exercise. Their full report is included as confidential Appendix 3 to this report.

10.4.2 Given the financial context for <hotel operator> (see confidential appendix), the Council believes the risks associated with the future financial viability of the operating model have been significantly mitigated.

10.5 Planning

10.5.1 The commercial proposal is predicated on planning approval being received. Any significant changes to massing or other factors that alter the proposal will be subject to a reappraisal. In addition to planning approval impacting on the commercial deal, the Council will carry the risks of the project between the point of conditional agreement and the deal becoming unconditional.

10.5.2 It is currently anticipated that the Council will be vacating the site by the end of August 2022. The contract however will not become unconditional until planning approval is received, plus any period allowed for a potential judicial review process to be time expired. Based on current estimates it is unlikely that the disposal will become unconditional until Summer 2022.

10.5.3 Between vacant possession and the contracts going unconditional the Council still retain ownership of the site and will have to maintain the sites security and pay business rates and insurance.

10.6 Contract Documents & Relationships

10.6.1 Commercial and Investments Committee have previously received details of how the various contractual documents align and support each other. A summary of the contractual arrangements the Council will enter into is as follows:

Document	Parties	
Agreement for Lease	(1) CCC (2) Brookgate	Agreement to set out:- <ul style="list-style-type: none"> the conditions to be satisfied before the site is available for development and, if development progresses, the manner in which it needs to be carried out to protect CCC; the timing and basis on which the headlease is granted to the funder and the income strip lease is granted to CCC
Prelet Agreement for Lease	(1) Brookgate (2) Hotel operator (as tenant) (3) Hotel operator parent (as guarantor, registered in Ireland)	Agreement to oblige Hotel operator to take a lease of the aparthotel if the development is carried out as planned by Brookgate.

Document	Parties	
	(4) CCC	
Headlease to funder	(1) CCC (2) Funder	This 999 year headlease enables Brookgate to commence development if they decide to do so, and in return a capital sum is paid to CCC.
Income strip lease	(1) Funder (2) CCC	This is granted by the Funder back to CCC only if the development is completed. It obliges CCC to pay a fixed rent to the Funder and will have some controls in although these will be limited as far as we are able to negotiate with the Funder.
Aparthotel Underlease	(1) CCC (2) Hotel operator UK Limited (as tenant) (3) Hotel operator parent (as guarantor, note offshore registered in Ireland)	This is the lease of part of the area leased to CCC to enable Hotel operator to operate the aparthotel.
Rent guarantee agreement	(1) Brookgate (2) CCC (3) Funder	This relates to the rental guarantee from Brookgate to CCC
Form of office lease	(1) CCC (2) <future agreement>	CCC will in time need to grant leases of the remainder of the site
Development Funding Agreement	(1) Brookgate (2) Funder <(3) CCC>	This will dictate the terms on which funding will be made available. We don't anticipate CCC being party to it but it may be beneficial to join into that agreement once it is discussed.
Forms of warranty (third party rights likely instead)	(1) CCC (2) Various consultants	Collateral warranties from the professional team, main contractors and key sub contractors will be required or CCC may rely on third party rights. Either of these may involve CCC in signing documentation to enable it to rely on them

The timelines for the programme of works from this point forwards are shown in Appendix 1.

11. Alignment with corporate priorities

The Cambs 2020 Programme is an opportunity to change the ways and places we deliver services to support the Council in the delivery of its corporate objectives by providing fit for purpose infrastructure, technology and a workplace that is equipped to face the organisational challenges that lie ahead.

11.1 Communities at the heart of everything we do

The spokes model is providing opportunities to locate Council services closer to the communities we serve. Section 1.5 sets out that we will monitor the location of our offices to ensure that this meets our workforce and service needs.

11.2 A good quality of life for everyone

The financial benefits arising from the disposal of Shire Hall will enable additional investment in the delivery of frontline services than otherwise would have been the case without this proposal.

11.3 Helping our children learn, develop and live life to the full

No significant implications

11.4 Cambridgeshire: a well-connected, safe, clean, green environment

Cambs 2020 Team are working in collaboration with the Energy Investment Unit to integrate proposed energy efficiency improvement works to the building estate of the Council. Shire Hall is an extremely inefficient carbon building. The proposed redevelopment will significantly improve the carbon footprint of the buildings currently on the site.

11.5 Protecting and caring for those who need us

The redevelopment of the Shire Hall site will bring additional economic benefits to Cambridge and will enhance the local environment by making the Scheduled Ancient Monument being more accessible to local residents and visitors. The local environment will be significantly enhanced as a result of this investment.

12. Significant Implications

12.1 Resource Implications

The financial implications of this proposal are set out in the text of the report. The financial implication of the whole programme are summarised elsewhere on this Agenda.

12.2 Procurement/Contractual/Council Contract Procedure Rules Implications

The proposed contractual arrangements between the parties to this agreement are set out in the report. The Council has been supported by Pinsent Mason solicitors throughout the commercial negotiations.

12.3 Statutory, Legal and Risk Implications

Due to the value of the contract which will be over £500k (and therefore a key decision), there is a requirement to receive approval by Committee prior to contract award. All decisions regarding the commercial deal have been delegated to the Committee by Full Council.

12.4 Equality and Diversity Implications

There are no further implications arising directly from this report.

12.5 Engagement and Communications Implications

There are no further implications arising directly from this report.

12.6 Localism and Local Member Involvement

Local Members attended a briefing on 21 June 2021. This report will be made available in full to local members.

12.7 Public Health Implications

There are no significant implications arising directly from this report.

12.8 Environment and Climate Change Implications on Priority Areas (See further guidance in Appendix 2):

12.8.1 Implication 1: Energy efficient, low carbon buildings.

Positive Status

Explanation: Improvements as a result of construction are set out in section 4.

12.8.2 Implication 2: Low carbon transport.

neutral

Explanation: The plans for the Shire Hall campus reduce the car parking available at that site. The location is well connected to low carbon transport options and its redevelopment

12.8.3 Implication 3: Green spaces, peatland, afforestation, habitats and land management.

Positive Status:

Explanation: Enhancements to green spaces, habitats, land management and biodiversity form part of the scheme and are referred to in section 5

12.8.4 Implication 4: Waste Management and Tackling Plastic Pollution.

neutral Status:

Explanation: No remarks

12.8.5 Implication 5: Water use, availability and management:

Positive Status:

Explanation: Efficient water management will form part of the new build/refurbishment process under BREEAM.

12.8.6 Implication 6: Air Pollution.

neutral Status:

Explanation: No remarks

12.8.7 Implication 7: Resilience of our services and infrastructure, and supporting vulnerable people to cope with climate change.

Positive Status:

Explanation: The overall scheme provides a significant improvement to the environmental impact of Shire Hall. The financial returns from the proposal provide revenue and capital funding to the Council for reinvestment in services and infrastructure.

Have the resource implications been cleared by Finance? Yes
Name of Officer: Tom Kelly

Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the Head of Procurement? Yes
Name of Officer: Henry Swan

Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or LGSS Law? Yes
Name of Legal Officer: Fiona McMillan

Have the equality and diversity implications been cleared by your Service Contact? Yes
Name of Officer: Tom Kelly

Have any engagement and communication implications been cleared by Communications? Yes
Name of Officer: Christine Birchall

Have any localism and Local Member involvement issues been cleared by your Service Contact? Yes
Name of Officer: Tom Kelly

Have any Public Health implications been cleared by Public Health? Yes or No – Not applicable
Name of Officer: Not applicable

If a Key decision, have any Environment and Climate Change implications been cleared by the Climate Change Officer? Yes
Name of Officer: Emily Bolton

13. Source documents

- 13.1 Long/short list assessment, board and liaison meeting logs, development appraisals, financial model programme plan and risk register, (CCC Resources Directorate/BNP Paribas); draft legal documents (Pinsent Masons LLP).

June 2020 Report to Commercial & Investment Committee

Summary timescales

No.	Task	Start	Finish
Legal			
1	Agreement of legal	May-21	Jul-21
2	Execution of agreements	Aug-21	Aug-21
3	Execution of Conditional agreements	Aug-21	Oct-21
4	Execution of Unconditional agreements	Nov-21	Aug-22
5	Grant Head Lease - Release of Capital Receipt	Aug-22	Aug-22
Design development			
6	Design development - RIBA Stage 1	Feb-21	Apr-21
7	Concept design - RIBA Stage 2	May-21	Aug-21
8	RIBA Stage 2 & Planning Design	Sep-21	Oct-21
9	RIBA Stage 3 Design Development	Apr-22	Jul-22
Planning process			
10	Pre-planning phase	Apr-21	Sep-21
11	Consultation	Jul-21	Sep-21
12	Produce planning documents	Sep-21	Oct-21
13	Submit planning	Nov-21	Nov-21
14	Statutory Planning Determination Period	Nov-21	Feb-22
16	Detailed planning application (determination period)	Nov-21	May-22
17	Planning permission granted	Jun-22	Jun-22
18	Judicial review period	Jun-22	Jul-22
19	Discharge Pre-Start Planning Conditions	Jun-22	Aug-22
Archaeology			
20	Desk top study and report - Stage 1	Jun-21	Aug-21
21	Trial pits/investigations - Stage 2	Aug-21	Jul-22
22	CAU Watching brief	Dec-22	Oct-23
23	Archaeological report	Oct-23	Nov-23
Construction			
24	Commence site works - demolition	Dec-22	Nov-23
25	Commence site works - construction and fit out	Jul-23	Jun-25
Project completion		Jun-25	Jun-25