

Hungate Ad-Hoc Scrutiny Review

Committed Expenditure and Cost of Additional Rent on Properties Sold and interest earned

1. At Hungate Ad Hoc Scrutiny Committee on Tuesday 27 January 2009, Members requested:
 - Detail of committed expenditure at July 2008 of the project. i.e. expenditure that would have still been incurred even if the project had halted at July 2008 as it had already been confirmed to third parties.
 - Commitments which have produced assets and commitments which are not recoverable.
 - The cost of 2 years additional rent on properties that had been sold and the interest earned on the sale of those properties.

2. Table 1 shows the total expenditure at July 2008, the committed and total spend at July 2008, the projected future committed spend at July 2008 total and the spend not recoverable.

Table 1 – Committed Expenditure at July 2008 and Commitments / Costs contributing to an asset or not

Column No.	1	2	3	4	5	6	7
Workstream	June 2008 Exec report	Total Expenditure @ July 2008	Committed Expenditure @ July 2008	Total Expenditure & Committed Expenditure @ July 2008	Estimated Future committed Expenditure	Estimated Expenditure to an Asset or Development Work	Estimated Abortive Costs
Land Assembly							
Land Assembly Fees	£3,683	£3,683		£3,683	£3,683	£3,683	£0
Peasholme Hostel	£1,800,000	£735,597		£735,597	£1,800,000	£1,800,000	£0
Ambulance Station	£1,249,225	£1,249,225		£1,249,225	£1,249,225	£1,249,225	£0
Archaeology	£72,555	£47,555		£47,555	£72,555	£72,555	£0
Total	£3,125,463	£2,036,060		£2,036,060	£3,125,463	£3,125,463	Zero
Design & Construction							
Construction	£29,334,000						
Risk	£1,060,000						
Furniture	£1,500,000						
Fees	£2,805,000	£1,360,272	£265,000	£1,625,272	£1,625,272	£812,636	£812,636
Total	£34,699,000	£1,625,272	£265,000	£1,625,272	£1,625,272	£812,636	£812,636
Property Exit							
Property exit fees	£626,290	£333,675		£333,675	£626,290	£626,290	£0
Social Services Adaptations	£1,000,000	£99,198		£99,198	£1,000,000	£1,000,000	£0

Annex B

Dilapidations	£1,250,000				£1,250,000	£1,250,000	£0
Repairs and Maintenance	£668,000				£668,000	£668,000	£0
Total Property Exit	£3,544,290	£432,873		£432,873	£3,544,290	£3,544,290	Zero
Other Costs							
Facilities Management	£101,994	£36,010		£36,010	£36,010	£36,010	£0
ICT	£861,540						
User Change Management	£326,274	£161,914		£161,914	£161,914	£161,914	£0
Project Management	£1,081,311	£535,016		£535,016	£535,016	£267,508	£267,508
Risk/contingency	£64,128						
Total	£2,435,247	£732,940		£732,940	£732,940	£465,432	£267,508
Total project budget	£43,804,000	£4,562,145	£265,000	£4,827,145	£9,027,965	£7,947,821	£1,080,144

3. The 27 January 2009 report to the Ad Hoc Hungate Scrutiny Committee included Annex B – Detailed Budget History – which stated “It is currently difficult to breakdown the costs incurred at July 2008 in table 1 into those which remain relevant to the administrative accommodation project going forwards and those costs which cannot be incorporated in to the revised building solution. This can only be determined once a new solution has been chosen. The Council is currently undergoing a procurement process which is at an early stage and therefore it is not possible to specifically identify which costs already incurred will be relevant to the further development.”
4. The statement above still holds true and the estimated costs in the table and description below are only a forecast estimation of the future committed expenditure that would remain relevant to the project costs and those that would potentially be abortive.
5. In Table ,1 column 2 shows the expenditure at July 2008 at £4,562,145. Column 3 shows the expenditure that had actually been committed at that time at £265,000. Column 4 shows the Total & Committed Expenditure at July 2008 at £4,827,145. Column 5 shows the projected future committed expenditure at July 2008 that was likely to be incurred going forwards even if the Hungate Administrative Accommodation project had not continued at £9,027,965. Column 6 details the Total & Committed Expenditure that is estimated that would be linked to an asset or development work at £ 7,947,821. Column 7 shows the costs that are estimated to be abortive at £1,080,144 and relate specifically to expenditure on the Hungate project which would not be transferable to a new scheme.
6. Column 4 – Total & Committed Expenditure at £4,827,145 is the information that was provided to the Hungate Ad-Hoc Scrutiny Committee in January 2009.
7. Column 5 – Estimated Future Committed Expenditure is estimated at £9,027,965. This is the cost that is estimate as at July 2008 that would still have been incurred even if the Hungate Scheme had not gone ahead.

8. Of this the Land Assembly, Project Exit Strategy, Facilities Management and the User Development Group elements do not include any abortive costs as the work outcomes are linked to either a capital asset or development work which can be transferred to any new scheme. These costs are not specific to Hungate and are estimated at £7,947,821 in column 6.
9. The Land Assembly estimate at £3,125,463 includes the Peasholme Hostel and works to the ambulance station. The Peasholme Centre provides a new facility and the costs of the ambulance station and archaeological investigations will have added value as a cleared site that is recoverable if sold at the right time on the open market.
10. The Property Exist Strategy is estimated at £3,544,290. All of the expenditure incurred on the property exit strategy should be relevant. The property exit fees includes renegotiated leases, disposals, professional and legal fees. Dilapidation, Repairs & Maintenance and Social Service adaption estimated costs will go ahead whether the move is to Hungate or an alternative location. The exit strategy remains the same whether the Council moves into an Office located in Hungate or to an alternative location.
11. Other Costs are estimated at £732,940. User Change Management expenditure could be partially relevant to the new offices, as costs have been incurred to develop user requirement and the change management processes of the business to make the new office accommodation increasingly efficient. This documentation collated will be relevant to the new building. The Project Management and Facilities Management costs have been incurred over the life of the project, of which most will be attributable to the administrative accommodation project going forwards. Much of the expenditure would have resulted from identifying the needs of the business, space awareness requirements, organisational change etc. These costs will be essential to future development and will continue to be relevant to the project.
12. Column 7 – Estimated Abortive Cost at £1,080,144 is very difficult to predict at this stage. It is suggested that half of the Project Management costs at £267,508 and half of the Design & Construction Fees £812,636 relate to the Hungate project and would not be transferable to the new scheme. It is currently not possible to do a detailed analysis of these costs and this estimate is a broad forecast of what the abortive costs could be.
13. St Leonard's Place is the only property that had been sold where 2 years additional rent would be incurred and also interest earned on the sale of the property.
14. Table 2 details the estimated cost of 2 years additional rent that would be incurred from the sale of St Leonards Place. The original Hungate scheme was modelled to October 2010 and the new scheme is modelled to December 2012. Therefore the additional rent for the 2 years is split over 2010/11 to 2012/13.

Table 2 – Estimated cost of 2 years additional rent on St Leonards Place

	2010/11 6 mnths	2011/12 Full Year	2012/13 8 Mnts	Total
St Leonards Place Rent	185,000	370,000	246,667	801,667

15. Table 3 details the estimated interest earned on the Sale of St Leonards Place. St Leonards Place was sold at the end of October 2006 and therefore interest earned has been calculated for approximately half a year for 06/07 and 2 full years for 07/08 and 08/09.

Table 3 – Interest Earned on St Leonards Place since 2006/07

	2006/07	2007/08	2008/09	Total
St Leonards Place	7,027,000	7,027,000	7,027,000	
Interest applied	4.90%	5.78%	5.51%	
Interest Achieved	127,566	406,316	386,905	920,787

16. Table 2 – Estimated costs of 2 years additional rent on St Leonards Place at £801,667 and Table 3 – Estimated interest earned on the Sale of St Leonards Place at £920,787 shows that the interest earned on the capital receipt for St Leonards Place is greater than the cost incurred by £119,120.
17. It should be noted that even though interest is earned on capital receipts and other surplus funds it is not the Council's policy to allocate interest to specific schemes. Capital receipts, borrowing and other sources of external funding are used to support expenditure incurred on capital schemes as they occur. Interest earned on all surplus funds is included in the treasury management budget which is reported in the Council's monitoring cycle to Executive.