

COUNCIL ASSEMBLY

(ORDINARY)

WEDNESDAY 6 JULY 2011

QUESTIONS ON REPORT

ITEM 5.2: CAPITAL STRATEGY AND PROGRAMME 2011/12 – 2020/21

1. QUESTION TO THE CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY FROM COUNCILLOR CATHERINE BOWMAN

The capital programme says "Reduction in funding for the MUSCo not proceeding". Is this evidence that the cabinet have abandoned the idea of a MUSCo and what will the cabinet do to ensure the people of Newington ward will still get clean, green and affordable energy?

RESPONSE

The company responsible for the MUSCo, Dalkia, was unable to develop a financially sustainable model to deliver this project.

The cabinet remains fully committed to developing clean, green and affordable energy solutions for the Elephant and Castle and we are working with Lend Lease to progress this work. As Lend Lease is taking responsibility for delivering these solutions, we no longer need to identify funding from our capital programme to take this forward.

SUPPLEMENTAL QUESTION TO THE CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY FROM COUNCILLOR CATHERINE BOWMAN

I thank the cabinet member for his response and I noticed the abrogation of responsibility for delivering clean energy has now been passed to the developer Lend Lease and I want to ask the cabinet member how he intends to ensure that Lend Lease, whose primary interests after all is to their shareholders, will deliver to the same high standards as the council would have done green energy solutions for residents of the area?

RESPONSE

I would like to thank Councillor Bowman for her supplementary question. I think our arrangements with Lend Lease are about us working in partnership with them to try and develop appropriate solutions to ensuring that we have clean and environmentally friendly power solutions that unfortunately we are not able to progress through the MUSCo and the proposal that came from Dalkia. Clearly it is really unfortunate that Dalkia's scheme did not stack up financially and was a complete mess.

I think actually going back to the drawing board does give us some opportunities working through with Lend Lease to come up with some better solutions than perhaps MUSCo was suggesting in some areas. I know for example the power station in Mandela Way was not a particularly popular idea in parts of Bermondsey and clearly also we have been talking earlier about Kings Stairs Gardens and the sewage treatment work that we all opposed on both sides of the chamber. The idea that is coming from MUSCo for a sewer treatment plant in Victory Park was something we on this side were also very unhappy about; it is a bit of a shame that the party opposite don't share that view about having a sewage treatment plant in Victory Park.

2. QUESTION TO THE CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY FROM COUNCILLOR LISA RAJAN

The cabinet member for finance, resources and community safety has decided to earmark in the capital programme any new homes bonus funding from the coalition government which is surplus to £1.5 million that was allocated to the revenue budget. However, on 07 June 2011, the cabinet member informed myself and six other members in an e-mail exchange that this additional £1 million new homes bonus funding had already been allocated to the Youth Fund in the revenue budget and therefore could not be used to save the Pumphouse. Please can he explain this misleading discrepancy?

RESPONSE

There was no intention to create any misleading discrepancy and I am now pleased to be able to report that the capital refresh report considered by council assembly this evening fully allocates all remaining estimated new homes bonus resources to capital projects that add value and worth to important schemes for the future across the borough. To be helpful, it is useful to recall some recent history of this new funding source to the council.

As part of council assembly's agreement of the budget in February 2011, some £1.5m was allocated within the 2011/12 budget base. At the time of budget setting the cabinet formally noted the level uncertainty on the new homes bonus grant, including how and when it will be distributed, the conditions of the scheme (especially beyond 2012/13) and the basis for the calculation. This resource was used to support overall service demands on the general fund. This level of funding is assumed in the budget to be available for at least each of the three years between 2011/12 and 2013/14. In addition, council assembly agreed to the provision of an annual £1m contribution to support young people through a youth fund, created for specific purposes as set out in a subsequent cabinet report.

At the time of writing on 7 June no final decisions had been taken by cabinet on the use of additional new homes bonus resources, although government had by then confirmed the 2011/12 allocation of new homes bonus at approximately £2.5m. This created an additional resource of £1m that had been scheduled to be returned to an earmarked reserve in line with the budget report to cabinet on 15th February for future allocation by cabinet.

It is true to say that the cabinet may have chosen to allocate the additional £1m to finance the youth fund which was my preference at the time. This would have enabled a lower of contribution from balances to have been required

which would have provided greater comfort given that the budget agreed in February was already using balances of £3.4m in 2011/12 alone and the extent of the demands on services to generate savings of £33.8m in 2011/12 alone. At that time, any suggestion that these resources may have been made available to reverse council assembly decisions would not have been appropriate in any circumstances.

Hopefully the full allocation of NHB resources now removes any uncertainty or confusion that I may have unintentionally created.

We are delighted to be both continuing to progress the youth fund, a critically important measure that we have introduced to mitigate the harm from the coalition government's policies impacting on our borough's young people, and delivering the ten-year capital programme that we are considering this evening to deliver the facilities that our residents deserve and to create opportunities for communities across the borough.

SUPPLEMENTAL QUESTION TO THE CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY FROM COUNCILLOR LISA RAJAN

I want to thank you for your answer. I read it through twice because I think I am still struggling to fully understand the situation and I am quite happy for you to correct me if I am wrong, but just in the interests of clarity; if I understand correctly the additional resource was originally funding the youth fund, now it is in the capital programme and the youth fund is instead being funded by taking a million pounds out of reserves. I think you said in paragraph four of your answer that it is not appropriate to reverse council assembly decisions but doesn't changing the amount going into reserves do this; and secondly if it is possible at this stage to reassign money from the reserves why can you not reinstate the full amount of funding to the environment and ecology grants programme and particularly the Pump House Museum?

RESPONSE

I would like to thank Councillor Rajan for her supplementary question. I think what we need to remember is when we as a council passed the budget we did not know how much new homes bonus we were going to have, and that budget that was put forward identified (on officers' advice very prudently) in the original version that we thought about one and a half million was going to come through from new homes bonus. But we learnt subsequently and through talking with the minister (and Councillor McNally who was there with us) that the minister was very keen to point out that we would be getting a higher amount than that and so we went back and did some work on what is the most appropriate way of spending that money.

Now we, on officers' advice, did not put the additional new homes bonus which we could not at that stage rely on (and it is very lucky that we did not rely on that, because it came down from the figure the minister told us we were going to get sadly) but we knew that money was going to come in and the idea was that we were going to put that additional money into reserves to replace the reserves that we had effectively pulled out and put into the youth fund. So what we agreed at council assembly was to take money out of the youth fund on the understanding that additional new homes bonus was coming forward and that was the decision we made at council assembly. So we are not reversing the

decision because the way that decision was taken is entirely consistent with the budget we took and the decision we're taking tonight on the capital programme.

3. QUESTION TO THE CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY FROM COUNCILLOR TIM McNALLY

How much of the allocated £10.69 million for the office accommodation strategy in the capital programme is allocated for the new offices in Queen's Road Peckham? Please can the cabinet member provide the cost per square metre of fitting out the new offices in Queen's Road Peckham and how this compares to the square metre fit out costs of the Tooley Street offices?

RESPONSE

The total Queen's Road capital allocation is £4.92m. These costs will be effectively funded from the disposal of buildings liberated as staff move into Queen's Road. These disposals include of Southwark and Bermondsey Town Hall along with a number of other sites. Prudent estimates suggest that the total value of the disposals will exceed the fit out costs and any surplus disposals will be returned as resources to the capital programme. In addition disposals of property in the HRA portfolio will provide receipts that will become available for housing purposes.

It is difficult to make a direct comparison between the fit out costs of the two buildings given that the council has taken leases on Queen's Road and Tooley Street at very different stages in construction and internal fit-out. Tooley Street was at a more progressed stage of construction when the council took over the project from the developer, with mechanical and engineering equipment (M&E) such as heating, air conditioning and lifts already installed. At Queen's Road much M&E is yet to be installed and these costs are included in the capital allocation. This difference is reflected in the different lease arrangements for each building. The chart below sets out the project costs and compares them with Tooley Street by making a distinction between "Cat A" works completed at both Tooley Street and Queen's Road by the council, and "Cat B" fit-out works that are required at Queen's Road, but were completed at Tooley Street prior to the council taking the lease.

Location	Type of work	Cost basis		£/m ²
Tooley Street	Cat A fit-out	Actual		540
Queen's Road:	Cat A fit-out	Estimated		725
	Cat B fit-out (i.e. M&E, structural alts, etc)	Estimated		726
Queen's Road total :				1,451

The factors influencing higher comparable' Cat A cost/m² costs at Queen's Road include:

1. Inflation
2. Smaller floor area meaning less economy of scale
3. A less efficient shape of floor plate at Queen's Road

It should also be noted that the cost of the lease per m² at Queen's Road is significantly less than at Tooley Street (£120 per m² compared to £318 per m²).

SUPPLEMENTAL QUESTION TO THE CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY FROM COUNCILLOR TIM McNALLY

I would like to thank the cabinet member for his answer and I note that it is good to read the reasons as to why the cost of Queen's Road is over 35% higher than the costs we achieved of Tooley Street.

He cites the economies of scale at Tooley Street; he cites the efficient shape of Tooley Street and all the positive aspects but I cannot really understand why he's citing inflation which has been pretty much zero or very small. I don't really think inflation can explain away a 35% increase so could he come up with some other reasons why he is spending quite so much gold-plating these offices?

RESPONSE

I would like to thank Councillor McNally for his supplemental question. There is no question as to gold-plating these offices. They will be done as efficiently and as cost effectively as we can.

One of the major challenges we have with the Queen's Road building, which thankfully we are getting at a far lower rent per square metre than Tooley Street, and certainly at the first year will be spending net far less per square metre if you include both the rent and fit out costs in year one at Queen's Road than we were doing at Tooley Street, and obviously in future years we will only have the rent aspect to address; but one of the key challenges at Queen's Road is the building has not been developed to the same specification that Tooley Street had when we moved in, and clearly we are paying a price for that high specification at Tooley Street. What we are able to do at Queen's Road is to secure a building at almost the third of the cost per square metre, but we will have to spend a little bit more money to bring it up to scratch. That actually is cost effective and I am quite happy to work through the figures with Councillor McNally to demonstrate that.