

**HINCKLEY HUB – UPDATE ON PROGRESS AND GOVERNANCE  
REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE  
DIRECTION)**



Hinckley & Bosworth  
Borough Council

*A Borough to be proud of*

**WARDS AFFECTED: ALL WARDS**

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**1. PURPOSE OF REPORT**

- 1.1 To update members on progress of the Hinckley Hub project in light of the announcement of J H Hallam Contracts Ltd appointing Administrators on the 21<sup>st</sup> November 2012.
- 1.2 To highlight to Members the governance of the Hinckley Hub project and the contractual relationship between MRP Developments Ltd and the Council, MRP Developments Ltd and JH Hallam Contracts Ltd and MRP Developments Ltd and Aviva Plc.

**2. RECOMMENDATION**

- 2.1 Members note the content of this report and welcome the outcome achieved in the very difficult economic circumstances now prevailing.

**3. BACKGROUND**

**3.1 CHRONOLOGY OF DECISIONS:**

On June 29<sup>th</sup> 2010 Council were presented with the Council Relocation Options

- To inform Council of the options for the re-location of the Council Offices from the current Argents Mead and Florence House sites.
- To seek Council approval of the preferred relocation option.

The report concentrated on three options for Members to consider and the associated advantages and disadvantages of each. MRP Developments Ltd was selected as the preferred option and at the time the following Headline Lease Terms were agreed:-

- Term: 30 years
- Type: Full repairing and insuring
- Demise: The former Flude site on the corner of Hawley Road and Rugby Road (the Southern gateway). The ground floor of the new infill extension, Total net lettable area for offices etc = 28,956 sq. ft
- Car parking: 95 car spaces (out of a total of 130 spaces)
- Rent: Year 1 £14.50 per square foot = £419,862 per annum  
Year 2 £15.00 per square foot = £434,340 per annum  
Year 3 onwards, £16 per square foot = £463,296 per annum  
From year 4 onwards, annual uplifts in rent by RPI, with a collar of 1.5%/5%
- Rates: Payable by the tenant  
The only proposed shared facility is car parking infrastructure (roads, security equipment, charging equipment etc). It is proposed that The Council undertake to maintain this infrastructure within their lease terms with recharge provisions in respect of any spaces allocated to other tenants

- Service charge: None proposed for The Council
- Legal costs : Each party to bear their own legal costs

A number of Developer incentives were also included in the offer from MRP Developments Ltd

- £300,000 unconditional cash payment. In order to smooth the impact of the rental payments in 2012/13 and 2013/14 and in order to support the cost of maintenance of the current Argents Mead offices, whilst remaining in occupation
- A further £75,000 payable for every 5,000 square feet (and pro rata for smaller amounts) of additional floor-space leased by partner organisations introduced by HBBC
- One month rent-free period to The Council
- Two years rent free occupation of the café
- BREEAM Very Good with a clear aspiration to meet an Excellent rating

It was agreed that the Deputy Chief Executive (Corporate Direction) and the Estates and Asset Manager be given delegated responsibility in consultation with the Lead Member for Finance, ICT and Assets, for agreeing with MRP Developments Ltd the office development specification and BREEAM rating and contractual terms of the lease in conjunction with the Chief Officer for Corporate Resources.

Positive progress was then made in bringing forward the Hinckley Hub project and the initiative to co-locate with other public partners to the proposed new Masterplan development.

In April 2011 **Executive report (No Exec53)**- Executive Members agreed with the concept of co-location with other public partners to the Hinckley Hub whilst acknowledging the associated risks and mitigating developer incentives. At this time the Executive also confirmed support for signing of the head lease of the Hinckley Hub building allowing the project to be developed within the agreed timescales.

In August 2011 **Council report (No C19)**– Council was given an update on the final position with regard to partner organisations co-locating their services within the Hinckley Hub development on the corner of Hawley Road and Rugby Road in Hinckley. It was agreed that the Council enter into the Head Lease for 41,042 sq/ft. Following this decision, the Deputy Chief Executive (Corporate Direction), in consultation with the Lead Member for Finance, ICT and Assets was able to further re-negotiate the lease terms and developer's incentives with MRP Development Ltd.

In October 2011 **Council report (No C25)**– Members approved the additional developer incentive brought about by a change in MRP Developments Ltd funding provider for the project. In return for extending the 30 year lease term for the Hinckley Hub development to 35 years the freehold of the development would be transferred to the Council for the consideration of £1.00 on completion of the extended lease term. The freehold will include the Hinckley Hub building and the land on which it is developed as identified in the agreed contract documentation.

The terms of the lease were finalised as:

- Term: 35 years with freehold interest reverting to the Council.
- Type: Full repairing and insuring
- Demise: The former Flude site on the corner of Hawley Road and Rugby Road Total net lettable area for offices etc = 41,042 sq. ft
- Car parking: 130 car spaces
- Rent: Year 1 £14.50 per square foot = £595,109 per annum

Followed by Annual Uplifts in rent by RPI with a cap of 4.5% (**note collar removed and cap reduced to from 5%**)

- Rates: Payable by the tenant
- Service charge: None proposed for The Council
- Developer Incentive: £250,000 paid on completion of the Agreement to Lease  
£750,000 to be paid on signing the lease
- Legal costs : Each party to bear their own legal costs

The Council signed the agreement to lease with MRP Developments Ltd on 31<sup>st</sup> October 2011

MRP Developments Ltd carried out their own procurement exercise for a Main Contractor to run the construction phase of the Hinckley Hub Development. The Council was not formally a party to this process but was advised of the four tenders being received in February 2011 with the successful contractor J H Hallam Contracts Ltd being appointed in April 2011.

Works on site commenced on Tuesday 9<sup>th</sup> January 2012 and were programmed for a 53 week period, with Practical Completion being the 7<sup>th</sup> January 2013.

### **3.2 CONTRACTUAL AGREEMENTS**

- The Council has an Agreement to Lease with MRP Development Ltd once the building is completed to the specified standard i.e. to BREEAM standard and specification. The Council does not have ownership rights to the building at present.
- Aviva Plc have purchased the land from MRP Development Ltd and are forward funding the development.
- Aviva are withholding the "profit" element of the development from MRP Development Ltd until the development is complete. This profit element will be used to cover any additional costs from having to re-issue the contract to another contractor.
- MRP Developments Ltd also have Bonds in place and have a guarantee from J H Hallam Contracts Ltd parent company (which is not in Administration) to cover any cost over runs.
- Whether MRP Developments Ltd trigger the Bond or the company guarantee or revert to Aviva to use the profit retention is for MRP Developments Ltd and Aviva to determine.
- The Council is therefore completely protected through this arrangement and has no financial exposure. The Council should also be assured because the interests of Aviva are very closely aligned to the interests of the Council i.e. get the contract re-issued to another contractor as soon as possible to complete at the same high standards as set out in the development agreement between MRP Developments Ltd and Aviva.
- There is also no financial liability to the Council's partners who were informed of the position immediately. LCC will stay in their current accommodation in Upper Bond St until the building is complete and Job Centre Plus is not due to move into the Hub until October 2013.
- The Council had no part to play in the appointment of J H Hallam Contracts Ltd. Aviva Plc and MRP Developments Ltd's Quantity Surveyor carried out the Tender process including the financial evaluation which was good when the contract was awarded. The financial health of J H Hallam Contracts Ltd deteriorated over the last 12 months.

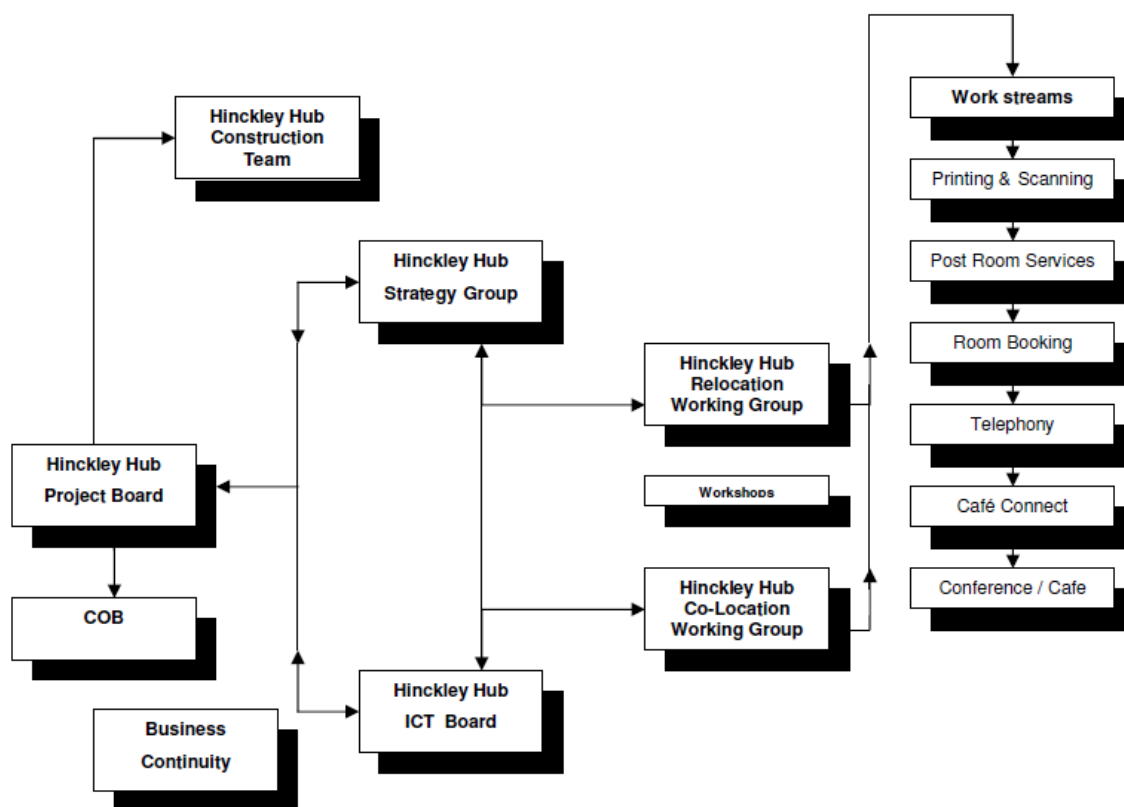
It should be noted that If the Council had not had the current arrangement in place and had contracted with J H Hallam Contracts Ltd directly then the situation would have been very different for the Council with the risk of considerable delay in completing the building with a far higher risk of financial loss.

It is a requirement of the Council to MRP Developments Ltd that in the event of instructing a new Main Contractor under a new contract the Council would insist that the incoming contractor take full liability for all aspects of the job from day one and, wherever possible, adopt the existing sub contractors to complete the building works and provide continuity. \*It is anticipated that there will be a delay on site whilst a new Main Contractor can either be novated or a new building contract instructed. These delays will be detailed to Members as soon as a new building programme has been presented to the Estates team. Delays are likely to bring Practical Completion to late April early May 2013.

At the date of writing this report (10<sup>th</sup> December 2012), the Deputy Chief executive (Corporate Direction) and the Estates and Assets Manager have received confirmation from MRP Developments Limited and Stepnell Limited that the contract with Hallam has been terminated and awarded to Stepnell Ltd subject to final documentation and that work on site will commence before Christmas. Stepnell Ltd have also confirmed that the company will be taking over all warranties for works completed to date and those be completed. A further up date will be given to Members at the meeting.

### 3.3 GOVERNANCE

The Hinckley Hub project has been lead by the Council’s Estates and Asset Management Service under the direction of the Deputy Chief Executive (Corporate Direction), with overall project management responsibility falling to the Estates and Asset Manager. Governance arrangements have followed in accordance with the Councils usual Project Management processes.



A member board meets on a monthly basis. The composition of this Board is as follows:

- Executive Member for Finance, ICT and Assets
- Executive Member for Corporate Services and Equalities
- Deputy Chief Executive (Corporate Direction)
- Estates and Assets Manager
- Richard Anderson (MRP Developments Ltd)
- Mark Wilmott (MRP Developments Ltd)

Progress on the delivery of the project is fed back by the Deputy Chief Executive (Corporate Direction) to the Strategic Leadership Board at every formal and every weekly briefing meeting. The Leader of the Council is briefed by the Executive Members and by the Chief Executive.

The above Board meets with a wider Partnership Board once a quarter. This Board has officer and in the case of Leicestershire County Council Member representation from:

- Leicestershire County Council
- Leicestershire Probation Service
- Job Centre Plus
- Citizen Advice Bureau

#### 4.0 **FINANCIAL IMPLICATIONS [IB]**

4.1 The additional costs associated with staying at Argents Mead for two months will be £24,000. The net saving for not paying costs for the Hub will be approximately £70,000 (due to saving of total cost if the Council had moved to the Hub in January when the partners would not have been occupying the building).

4.2 Additional costs for ICT lines to Jubilee Building will be £10,000. These lines were to be installed at the same time as the move to the Hub.

4.3 The estimated net impact is therefore a net saving estimated to be £36,000.

#### 5. **LEGAL IMPLICATIONS [AB]**

The agreement to lease places an obligation on MRP Developments Ltd to use all reasonable endeavours to complete the building of the development. This obligation continues notwithstanding the administration of J H Hallam Contracts Ltd who is the building contractor.

MRP Developments Ltd is also under an obligation to use all reasonable endeavours to procure a collateral warranty in favour of the Council from any contractor working on site. With the incoming main contractor being required to take full liability for the project, the Council will benefit from a full collateral warranty for any defect in the construction of the building.

#### 6. **CORPORATE PLAN IMPLICATIONS**

The Hinckley Hub will support the delivery of effective, economic and efficient service delivery to citizens of the Borough.

#### 8. **RISK IMPLICATIONS**

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner

9. **KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

Equality and rural implications with all partner organisations and the Council staff will need to be undertaken and have begun and will continue to be considered throughout the life of the project.

10. **CORPORATE IMPLICATIONS**

By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Human Resources implications
- Planning Implications
- Voluntary Sector

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Background papers: Reports - Exec53, Council C19 & C25

Contact Officer: Sanjiv Kohli Ext 5607 and Malcolm Evans 5614  
Executive Member: Cllr Keith Lynch