

AGENDA ITEM 7

FALKIRK COUNCIL

Subject: **COUNCIL HEADQUARTERS ACCOMMODATION**
Meeting: **EXECUTIVE**
Date: **25 FEBRUARY 2014**
Author: **DIRECTOR OF DEVELOPMENT SERVICES**

1. PURPOSE OF REPORT AND SUMMARY

- 1.1 The purpose of this report is to advise on the outcomes of the outline options appraisal work undertaken in relation to the preparation of a business case for the Council's headquarters accommodation as agreed by the Council's Policy and Resources Committee in November 2012.
- 1.2 The report considers each of these options, examines their respective merits in both financial and non-financial terms and recommends the basis of an approach to reprovision of the accommodation for further detailed consideration.
- 1.3 The options considered based on those initially identified to the Committee are as follows:-
 - Option 1 – Do minimum
 - Option 2 – Full scale replacement
 - Option 3 – Refurbishment of existing MBF complex
 - Option 4 – Staged approach
- 1.4 A number of Council owned locations have also been considered (4.7.1 refers) in relation to Options 2 and 4 which involve new build development.
- 1.5 The costs and key features of each option are summarised in the table appended to this paper (Appendix 1).
- 1.6 Option 4a (staged approach to development of new office and civic/town hall accommodation) is considered the best option in both financial and non- financial terms and is recommended for further detailed consideration. This option can be delivered e.g. by utilising the existing Municipal Buildings site by means of commencing new development towards the road frontage of the existing site. It is proposed that this option be pursued through a two staged approach to the production of the full business case, required to set out the means of delivery of:
 - a) the office accommodation and
 - b) a replacement town hall/civic facility

2. BACKGROUND

- 2.1 The Council aims to improve the quality of life for local people by working with its communities to best deliver high quality accessible services. In order to fulfil this aim, the Council requires to develop service provision, its staff, and its property asset base. The age/condition and sustainability for service provision of the Council's headquarter accommodation is a key concern of its Asset Management Strategy. Policy and Resources Committee previously approved a report authorising further consideration of the four outline options to address the identified need to improve the Council's headquarters accommodation. Hub Co East Central were subsequently appointed to undertake the work necessary to inform the outline options appraisal exercise in conjunction with officers of the Council.

3. APPROACH

- 3.1 A key issue identified by the Council's Property Asset Management Plan is the need to find a means of addressing the current poor condition of the primary headquarters building at Municipal Buildings, Falkirk encompassing the office accommodation, civic space and town hall.
- 3.2 The building has been identified as approaching the end of its serviceable life. Some key components of the building have significantly exceeded their intended design life and, correspondingly, these buildings are proving inefficient in terms of service delivery, maintenance, energy use and user / staff experience.
- 3.3 In addition, consideration requires to be given to the position to be adopted in relation to the third party leases in respect of Abbotsford House and Callendar Square One Stop Shop (expiry Spring 2016). Decisions on these require to be consistent with the approach to overall rationalisation / re-provision of Council HQ accommodation.
- 3.4 This report summarises the findings of the report entitled, 'Falkirk Council HQ Accommodation Review – Options Appraisal', prepared by Hub Co in conjunction with Council officers and represents an interim report on options. The exercise has been carried out with the intention of identifying a preferred option based on an assessment of both financial and non financial criteria.
- 3.5 Integral with the overall approach to reprovision, is the assumption that the solution for the Council's HQ accommodation should adopt the principles of shared use of space, higher utilisation standards consistent with best practice and increased building efficiency linked to flexible working practices. As a major capital investment by the Council it should aim to secure the highest standards of design, securing benefits in environmental and economic impact and improved accommodation for service users and staff.

4. FINDINGS

4.1 Option 1 – Do minimum

- 4.1.1 This option assumes the continuation of the ongoing approach of minimal expenditure, responding to building failures in the council's HQ buildings (including town hall) as they arise. Under this option, any non essential expenditure has been put off for as long as practically possible with works generally confined to making the buildings safe and statutorily compliant.
- 4.1.2 Given the age of the building, it is now difficult to predict when significant failures might occur. The presence of asbestos in ceiling voids means that the cost of any repair is significant, involving sealing areas off to avoid asbestos contamination of occupied space. It is likely at a point in time that a significant level of unavoidable refurbishment and reinstatement becomes necessary.
- 4.1.3 The capital cost for this option involves initial year 1 compliance works and a minimal refurbishment work at year 5 and is estimated at £10.62m. The total whole life (30 year) cost of this option is £54.066m. This includes an estimated average annual running cost of £1.552m including repairs, renewals, rates, rent, energy etc.
- 4.1.4 The level of minimum capital expenditure incurred by this option will not materially improve or extend the life of the building fabric, systems or components. The approach involves any non essential expenditure being deferred for as long as possible with works generally restricted to making the building safe and statutorily compliant and providing building services which give an acceptable level of comfort and reliability. The existing standard of accommodation will remain even after the essential repairs and replacements have been carried out e.g. the existing windows will not be replaced for a further c25 years. There will also be a need to decant building users during refurbishment works.
- 4.1.5 Whilst this option scores well from a statutory compliance and initial capital costs perspective, this option scores poorly against the Council's objectives, in particular:
- It delivers no reduction in occupied floor area or improved utilisation
 - It fails to enable flexible working e.g. retention of inefficient cellular space
 - It makes only a minor contribution towards the Council's carbon reduction target
 - It provides no medium term improvement in current standards e.g. windows, ventilation etc
 - It scores lowest of the options on a value for money assessment, having a high level of whole life costs (£54m).
 - The risks associated with services or building failure and business continuity / reputation, remain significant.

Abbotsford House/ Callander Square

- 4.1.6 Under this option the leases at Abbotsford House and Callendar Square will need to be renewed, or potentially purchased in the case of Abbotsford House. These terms would be subject to detailed negotiation and assessment of cost effectiveness.
- 4.1.7 The extent of accommodation at Callendar Square will be dependant upon the space needed for those staff required at this town centre location and is subject to consideration arising from the implications of welfare reform.

4.2 Option 2 – Full scale replacement

- 4.2.1 The full scale replacement option assumes the provision of a new Town Hall, arts facility, civic suite and office accommodation on an alternative site. The design brief was informed by the Council's office relocation strategy and set a requirement for the office element to accommodate 512 full time equivalents (FTE's). The office design brief developed by the Council set an efficient modern base case space utilisation target of 8 sqm per FTE in line with several modern local authority offices and requested that the design team also explore as a scenario a flexible working model based on 0.8 desks per FTE (option 2a).
- 4.2.2 A review of the Council's operational office accommodation recently undertaken has found that considerable scope remains to improve overall utilisation levels. These are currently 26% above the current target range of 9.5-10.5 sq.m / FTE net and are below average performance in comparison to other local authorities. In addition, the current position of 1.14 workstations per FTE is 14% above the target and significantly above the benchmark figure of 1.04 for other Scottish local authorities. Experience of other authorities suggests that 0.8 / FTE is attainable and realistic, subject to implementation of the necessary flexible working practices and more detail on assumptions relating to private office and meeting space. This information will be gained at the next stage.
- 4.2.3 The brief for the civic / arts / town hall element replicates the existing Town hall provision for the theatre and back stage areas but develops a more efficient multi-use approach to Committee Rooms and a function suite.
- 4.2.4 The capital cost of Option 2 is £22.72m and Option 2a is £20.94m within whole life costs of £48.47m and £43.79m respectively. These include estimated average annual running costs of £0.919m and £0.815m respectively including repairs, renewals, rates, rent, energy etc.
- 4.2.5 Whilst having a higher upfront capital cost, Option 2 and 2a score well against the Council's objectives including
- They deliver an average 50% reduction in occupied floor area
 - They achieve in excess of 100% of the Council's carbon reduction target for its office portfolio.

Additionally, under Option 2, it is assumed that the Municipal Buildings site would no longer be required and is therefore available for disposal. The leases at Abbotsford House and Callendar Square would not be renewed on the existing basis. A downsized customer facing facility would be maintained under this option either within Callendar Square or alternative central location. This has yet to be costed but would be in addition to the above sums.

- 4.2.6 It should be noted that this option requires an upfront capital investment of £21-£23m in the first two years of the project. Further the issues outlined in paragraph 4.4.3 and 4.4.6 in relation to co-location of facilities would apply to this option.

4.3 Option 3 – Refurbishment of the existing complex

- 4.3.1 The refurbishment of the existing complex assumed a like for like basis with no significant enhancement in building efficiency and quality. This includes a complete replacement of all time expired building elements and systems with a modern equivalent to meet current building standards and deployment of energy efficiency measures.

The initial capital cost is £12.18m within whole life costs of £54.822m. This includes estimated average annual running costs of £1.523m including repairs, renewals, rates, rent, energy etc. Staff and elected members will also require to be relocated whilst refurbishment works are undertaken.

- 4.3.2 Whilst this option scores well in terms of statutory compliance, it scores poorly against the Council's objectives, in particular:

- it does not include any reconfiguration of space making it unsuitable for modern working practices
- it will continue to suffer from very poor space utilisation
- even after incurring substantial refurbishment costs, the office accommodation within the buildings will remain, at best, medium grade

In addition, as a retained building, this option offers little in the way of individual space efficiency and additional office space will be required off site. It is therefore assumed that the leases at Abbotsford House and Callendar Square will need to be renewed at significant cost.

- 4.3.3 For comparison purposes, a high level pricing exercise was also undertaken on a full strip back and remodeling scenario (referred to as option 3a) using generic sqm rates for refurbishment & remodeling works. This option is an improvement on the refurbishment option and would create open plan space and facilitate a level of flexible working arrangements. This would also create sufficient space to allow the leases at Abbotsford House and Callendar Square to expire.

The initial capital cost is estimated to be £20.63m within whole life costs of £50.451m. This includes estimated average annual running costs of £1.065m including repairs, renewals, rates, rent, energy etc. Under these options (3 and 3a) significant temporary accommodation will need to be considered (estimated cost c£750k) during the refurbishment period.

4.3.4 Whilst within a refurbishment context and subject to affordability, the remodelling Option 3a appears preferable from eg building efficiency and capacity perspectives, it does present some key risks. These risks would require further detailed evaluation and include assessments of the:

- structural integrity of building frame, foundations etc.
- temporary accommodation and decant arrangements and associated structures
- logistics and ICT continuity etc
- asbestos removal costs, duration and impact on contract programme
- the potential requirement for an extension dependent on the floor space capacity which can be achieved following these assessments.

4.3.5 Under both option 3 and 3a there would be no ability to realise a sale receipt from the Municipal Buildings site.

4.4 Option 4 – Staged approach

4.4.1 The staged approach option assumes a phased development of a new office facility funded from the existing revenue commitments to Municipal Buildings, Abbotsford House and Callendar Square. This would be followed in time by construction of a new civic facility when improved revenue budget capacity, capital receipts and external funds were in place.

4.4.2 This new build option adopts the same design, specification, site analysis and pricing as Option 2 and possesses all the same benefits. However, under this option, the Option 2 new build office and civic elements are separated physically and by timing. As such they have the ability to reside either on the same or different sites, and timeframes for delivery can be adjusted thus providing the flexibility in terms of phasing, location etc, reflecting on going constraints on financial resources.

4.4.3 Preliminary discussions have taken place with officers of Falkirk Community Trust in relation to incorporating a replacement town hall on this basis. Whilst welcoming the prospect in time of a replacement or refurbished town hall, concern has been expressed on the principle of co-location with the civic element and the logistical challenges that might potentially arise as a result. It will be necessary to give further detailed consideration to these issues as part of the next stage of project development should this option be selected.

4.4.4 The capital cost of Option 4 is £11.59m for the office and £11.13m for the civic, total £22.72m within whole life costs of £47.772m. These include estimated average annual running costs of £0.894m including repairs, renewals, rates, rent, energy etc.

- 4.4.5 It will however be possible to make savings to the office new build costs on the basis of adopting a '0.8' multiple (Option 4a) to the estimated floor space for each FTE, reflecting flexible and home working opportunities. This will further reduce the office floor space which has been calculated on the basis of 8 sq.m /FTE on an estimated total number of 512 staff to be relocated from MBF, Abbotsford House and Callendar Square and which incorporates 10% allowance for reduced staff numbers occupying the premises. On the '0.8' scenario, the Option 4 costs will be £9.81m for the office element, £11.13m for the civic, total £20.94m within whole life costs of £43.116m with an annual average running cost of £0.791m.
- 4.4.6 Based on these assessments undertaken as part of the option appraisal exercise option 4a (0.8 scenario) scores well on the following basis:

- It scores highest in the non-financial appraisal reflecting a consistent and significant contribution towards achievement of the Council stated objectives (covering sustainability, compliance, flexibility & improved capacity and economic & community benefits).
- It has the lowest un-inflated whole life cost and the lowest whole life cost nett present value (NPV) reflecting an efficient balance between upfront capital cost and ongoing annual expenditure.
- It has the lowest running costs of the various options.
- It has the highest value for money rating which confirms it as the option that most effectively balances product quality and performance with cost.
- The staged nature of the option provides the Council with an ability to meet immediate office needs whilst retaining the flexibility to create a suitable civic solution at an appropriate point in time (relieving the pressure on the Council to dispose of the Municipal Buildings site in poor market conditions).

This option would however require careful phasing and management of the various project elements. There would also be a requirement to address the approach to integration of the town hall into the proposed new civic facility together with considering the operational issues arising from co-location.

4.7 Potential Locations

- 4.7.1 As part of consideration of the potential costs of re-provision of the buildings at MBF, an initial review of a number of Council owned / controlled sites has been undertaken. These were:-

- The existing Municipal Buildings site
- Meeks Road car park
- Melville Street car park (effectively ruled out on size criteria)
- Land to the south of Falkirk Stadium
- Land at Falkirk Gateway

It would also be possible to include Abbotsford House and surrounding council owned land in the field of search.

- 4.7.2 Each site is essentially cost neutral on the basis of council ownership, save for the Stadium site. Development of a full business case will require more detailed consideration of the preferred site(s) to address any site related issues/constraints. This could acknowledge the potential both for a single site development and the separation of the office element from the civic accommodation, subject to an in principle decision.
- 4.7.3 There are clearly a number of permutations for this option and, for the purpose of taking forward the full business case, it would be preferable to seek an in principle view from Members on preferred location(s) of the facilities. Clarity on a preferred site option will also assist consideration of potential links to accommodation provision involving other partner organisations, e.g. NHS.

5. FINANCIAL CONSIDERATIONS AND AFFORDABILITY

- 5.1 It will be readily apparent that capital funding of the recommended Option 4/4a, at a total estimated up-front cost of circa £21m, is likely to prove extremely challenging. This is particularly the case given the current and anticipated constraints on the Council's General Capital Programme together with competing priorities for resources and these concerns will be relevant even if the costs are phased over a number of years as anticipated.
- 5.2 Subject to a decision on the option to be pursued, an alternative approach may be to consider utilising revenue savings accruing (e.g. from exiting existing leased properties) to meet the borrowing costs entailed in procuring re-provision.
- 5.3 There is also potential to look to generate capital receipts subject to decisions on locating / relocating the office and civic elements together with the possibility of attracting external funding / grants e.g. via Falkirk Community Trust in relation to the replacement town hall element.
- 5.4 Whilst determining the optimum means of funding the project will require further detailed consideration, the table in Appendix 1 summarises the financial implications of each option in capital, revenue and whole life terms. It indicates that based on information currently available, option 4a could be taken forward for an estimated net additional borrowing cost of c£215k per annum. This reflects the efficiency savings to be derived from a downsized more efficient complex together with the savings on running costs achieved by not renewing the existing lease of Abbotsford House, enabled under this option.
- 5.5 These costs and the various assumptions on which they are based will require to be further tested and evaluated to confirm their accuracy as part of the full business case exercise.

- 5.6 A further option would be to consider a developer led approach to delivery of the project. Advice received from Hub Co indicates that for example, a part revenue based approach to procurement via a lease funded arrangement could provide a means of funding which would reflect the strength of the Council's covenant in terms of negotiation of the most advantageous funding mechanism / procurement method and delivery arrangements. This would however require the project to be competitively procured via relevant OJEU procedures with the corresponding impacts on project timescales and delivery.
- 5.7 This would in turn necessitate negotiation of an extension to the existing lease of Abbotsford House for an appropriate period of time, thus potentially adding significantly to the overall project costs.

6. NEXT STAGE

- 6.1 Following a decision on the preferred option, and, in order to move the project forward to the next stage of development of a full business case, it will be necessary to confirm-
- how the new or reconfigured space is to be used and by which Service(s).
 - a more detailed design brief
 - the optimum means of integration of civic/ town hall and potentially office functions reflecting service delivery and cost implications if a new build option is chosen
 - the preferred site(s)
 - the fit of proposals with Council policies including development plan policies and any likely s75 implications etc.
 - the scope for involvement of other partners.
- 6.2 It is estimated that the next stage of the process, should involve the development of a full business case for a) the office headquarters and b) the replacement civic/town hall facility. Production of the full business case for the office headquarters will take approximately 16 weeks. This work will require to be sourced externally given the specialist inputs required. It will involve more detailed work on design, costings, site/ building surveys and procurement options, alternative structures and models of delivery and evaluation of comparative costs against affordability criteria.
- 6.3 Initial discussions have taken place with Scottish Futures Trust in relation to best practice in implementing such proposals including the 'smarter' use of office accommodation. This reflects experience of public sector organisations elsewhere and points to efficiencies to be gained through such an approach.
- 6.4 A key element of this is the promotion and agreement of new ways of working supported by the necessary ICT, HR, business transformation and property and asset management solutions. Further detailed work in this context will be required as part of development of the full business case and this will involve a group of stakeholders from each service affected as well as Members. It is likely that visits to new office facilities which replicate the recommended space standards will be included in this exercise.

- 6.5 It is also proposed that a full business case be developed for the civic/town hall facility. This exercise is anticipated to require a longer time period (estimated at six months) and will involve engagement of the Falkirk Community Trust, prospective funding partners and other interests.
- 6.6 To assist in overseeing and steering each of these exercises it is proposed to establish a working group involving elected members and officers. A draft terms of reference for this working group is attached for approval. (Appendix 2)

7.0 CONCLUSIONS

- 7.1 The outline options appraisal exercise has highlighted the challenges facing the Council in addressing the deteriorating condition of the MBF complex. Whilst the ‘do minimum’ option may to an extent contain costs initially, considered reflecting a ‘whole life’ approach, this is amongst the most expensive in overall terms. It is potentially a high risk approach given the recurring risks of failure of key building components. This in turn would have resultant impacts in relation to both potentially substantial unbudgeted expenditure and from business continuity and health and safety perspectives.
- 7.2 The refurbishment and remodelling options require both substantial upfront expenditure involving significant disruption to building users due to decanting and the consequent impacts on business continuity. This option is also at the higher end of the range in overall cost terms. Option 3a (remodeling) would however enable continued use of the existing site whilst significantly increasing the efficiency and capacity of the remodelled office accommodation with the resultant revenue budget savings arising from rental / occupancy costs obtained on vacating Abbotsford House and energy savings achievable from a remodelled Municipal Buildings complex.
- 7.3 Option 4a is recommended for further detailed consideration on the basis that it represents the most cost effective solution in best value terms and offers a degree of flexibility over the timing, approach and mechanism for delivery. This option reflects the obvious financial challenges to be addressed in dealing with the existing buildings at the MBF complex.

8. RECOMMENDATION

It is recommended that the Executive:

- i) Notes the terms of the above report on the council's headquarters accommodation.
- ii) Agrees in principle the approach to delivery of the project involving a general standard for net floor space of 8sq/m per FTE and 0.8 desks per FTE.
- iii) Agrees to proceed with the next steps as set out at Para. 6 involving the preparation of full business case documents for delivery of
 - a) the council office headquarters accommodation based on option 4a, and
 - b) a replacement civic/town hall facility.
- iv) Agrees that a further report on the outcomes of the full business case be presented to the Executive in 2014.
- v) Agrees to establish the member/officer HQ working group as set out in Appendix 2.

DIRECTOR OF DEVELOPMENT SERVICES

11th February 2014

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LIST OF BACKGROUND PAPERS

- 1 Falkirk Council Report 8 October 2008
- 2 Policy and Resources Report 18 November 2008
- 3 Falkirk Council Report 13 January 2009
- 4 Policy and Resources Report 3 May 2011
- 5 HQ Accommodation Review Option Appraisal – not for publication