AGENDA ITEM 7

ASSET RATIONALISATION: COUNCIL HEADQUARTERS AND REPLACEMENT TOWN HALL PROJECT

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FALKIRK COUNCIL

SUBJECT: ASSET RATIONALISATION: COUNCIL HEADQUARTERS AND REPLACEMENT TOWN HALL PROJECT
MEETING: FALKIRK COUNCIL
DATE: 11 MAY 2016
AUTHOR: DIRECTOR OF DEVELOPMENT SERVICES

1. INTRODUCTION

1.1 The purpose of this report is to provide Members with an update on the status of the current council office headquarter project together with a review of potential alternative options available as instructed in terms agreed by Council on 16th December 2015. The report also provides information on the development and terms of a business case for the creation of an arts centre within the new Forth Valley College campus, as a replacement for the existing Falkirk Town Hall.

2. BACKGROUND

2.1 As part of the work previously undertaken in considering the business case for development of a new Council HQ accommodation, a number of options were considered.

2.1.2 These were:-

- Option 1 – do minimum
- Option 2 – full scale replacement
- Option 3 – refurbishment of existing Municipal Buildings, Falkirk complex
- Option 4 – staged approach to development

2.1.3 Option 4, pursuing a staged approach to development of new office and civic / town hall accommodation and subject to adopting a space utilisation ratio of 8sqm for each full time equivalent employee (FTE) based on 0.8 desks/FTE ratio (option 4a) was considered the best option in both financial and non-financial terms at the meeting of the Executive on 25th February 2014. Thereafter, following decisions taken by Council on 8th October, 2014, and on 25th June, 2015, work has been advanced to progress the new Council office HQ project to Stage 2 design stage.

2.1.4 Discussions have also been taking place, since the 24th August 2015 meeting of Council with Forth Valley College and Falkirk Community Trust in relation to identifying an optimum means of procuring a replacement Town Hall / arts centre as part of the new replacement Forth Valley College campus at Middlefield.

2.1.5 At the special meeting of Council on 24th August, 2015, Members agreed:

- to proceed with the Council civic & office headquarters project;
- to authorise the Director of Development Services to:-
  - commission Hubco to progress the Stage 2 designs for the new facility;
  - request that Hubco submit the detailed planning application for the new Headquarters building on the Municipal Buildings site;
  - seek to acquire the Westbank Clinic site from NHS Forth Valley on suitable terms and at a cost of £175,000;
  - seek an extension of the lease at Callander Square for a period of one year and provision for three-monthly extensions; and
- the principle of replacement of the Town Hall/arts centre on the Middlefield site to be pursued in partnership with Forth Valley College/Falkirk Community Trust and subject to a detailed business case for final approval being considered at October Council.

2.1.6 At the October 2015 meeting of the Council, it was reported that it had not been possible to finalise the business case for the arts centre as complications had arisen with the College and its non-profit distributing (NPD) delivery model for the project. This related to the classification of capital works as either public or private sector ventures under the European System of Accounts 2010 (ESA10). It was anticipated at that time that matters would be resolved in time for the Council meeting in December. However resolution of this matter was not achieved in December and, at its meeting on 16th December 2015, the Council requested a further report by officers setting out the impact of ESA10 and VAT on the project; a detailed analysis of the costs and timeline for the project and a full review of the alternative options available to the Council.

2.1.7 While no further substantive advice has yet emerged on the treatment of ESA10 relative to NPD projects, Forth Valley College has recently advised that, following agreement with the Scottish Funding Council, the College intends to progress their project by means of a straightforward capital procurement of a design and build project and therefore ESA10 no longer impacts on the potential timescales for the College campus and arts centre project as it is not a relevant factor in the new delivery model. The Council office HQ project is not affected by ESA10.

3. UPDATE ON CURRENT PROJECT

3.1 Office Headquarters

Planning Application

3.1.1 Following the August Council meeting, further work took place to enable submission of a planning application at the end of September. The application is currently under consideration and it is anticipated that it will shortly be considered by the Planning Committee.

3.1.2 Reflecting concerns of local residents, the height of the eastern block of the proposed building has been reduced by a storey and the parapet heights reduced on both blocks. The relevant office floor has been moved to the western block, making both blocks now of similar height. The proposed building location was moved 7 metres westwards from the original proposal. The design maintains its blending with the surrounding buildings and topography and the prominence required of a major public building at the gateway to the town centre. These changes have reduced the height of the building at its eastern side by almost 4m from the initial design concept. This was previously reported to Council on 24th August, 2015.

Delivery Plan

3.1.3 Hubco is currently finalising Stage 2 design and costing for the new headquarters facility and overseeing the element of the office HQ project relating to the office building itself together with the demolition of Westbank Clinic. The remaining elements of the project, viz. the roundabout construction, purchase of Westbank and IT provision are being overseen by Falkirk Council.

3.1.4 Subject to agreement to this finalised Stage 2 design cost and a decision on the planning application, the office HQ project will be in a position to proceed to financial close. Thereafter, enabling works to conclude the acquisition and demolition of Westbank Clinic, service and utility diversions and the creation of a temporary access to the Municipal Buildings site will require to be undertaken prior to construction works on the new facility commencing.

3.1.5 Costs at this stage of the project are more robust than a traditionally procured project due to the main contractor (Robertson Construction Group) having been involved throughout the Stage 2 design development. They continue to fine tune the building cost towards a finalised Stage 2 figure which will not exceed that shown in the table below:

	£'000s
Robertson Construction HQ build cost (including preliminaries, fees, 1% contingency & demolition of Westbank clinic)	16,340
Acquisition of Westbank Clinic from NHS	175
IT infrastructure	800
Roundabout construction and off site works	1,100
Demolition of Municipal Buildings	450
Furniture, fittings and equipment	850
Enabling surveys (Ground Investigation etc)	100
Total Gross Cost of HQ project	**19,815**

3.1.6 As previously advised, there are capital receipts and existing accommodation capital funding to be subtracted from the total cost figure above which results in a total net cost for the HQ project of £17.112m as detailed in the table below:

	£'000s	£'000s
Total Gross Cost of HQ project		19,815
Accommodation budget	853	
Capital Receipts (Municipal Buildings and Seabegs sites)	1,850	
Total funds available		2,703
Total Net Cost of HQ Project		**17,112**

3.1.7 On agreement of the programme with Hubco and following completion of the enabling works, construction of the new office HQ building is envisaged to commence in autumn 2016.

3.1.8 Negotiations with NHS Forth Valley for the acquisition of Westbank have been concluded and the necessary legal documents are being finalised. The agreement to acquire is subject to formal Council approval for the Office HQ element of the proejct to proceed Lease extensions for Abbotsford House and Callendar Square respectively have been finalised as previously agreed by Council.

3.2 **Replacement Town Hall**

3.2.1 Forth Valley College (FVC) has prepared its own full business case in respect of the new campus and is working with officers of the Council and Falkirk Community Trust (FCT) to support development of an arts centre as a replacement for the existing town hall facility as part of this scheme.

Business Case

3.2.2 FCT has prepared its business case for the arts centre element of the new campus (a summary of which is contained in Appendix 2). An initial brief was developed for design of a replacement facility based on the anticipated budget of £4m. This is the approximate capital sum which could be funded on the basis of servicing this borrowing by means only of the £262k per annum net revenue saving that was anticipated to accrue from the Council office HQ project. The original brief was based on a 400 seat auditorium with back stage provision and a stage area similar to that existing at Falkirk Town Hall (FTH). It assumed that the arts centre would share the College campus facilities for front of house resources. These would include the box office, reception, foyer, bar and café space, ancillary facilities as well as parking, landscaping and access roads.

3.2.3 FCT has sought the advice of a specialist arts adviser, Bonnar Keenlyside, to consider a number of issues including how the facility might best reflect the needs of the voluntary arts sector, comparable facilities in the rest of the UK and emerging trends in arts centre development. The outcome of this work is summarised in the business case. However the key points are:

- Whilst there may be considered to be latent demand for Falkirk to develop a large scale arts centre, such a development would be likely to cost c£15/30m. They consider that such a facility might operate successfully however this would be conditional on a significant increase in public subsidy for the arts in the area. The advisors acknowledge the difficulties for a local authority of committing this level of investment for this purpose in the prevailing financial climate.

- The local voluntary arts sector wishes to see a larger facility than that described in the initial brief. They seek a facility with a minimum of 500 seats, a stage capable of accommodating 80-100 cast members and a flytower.

3.2.4 Recognising the financial realities Bonnar Keenlyside do however consider the opportunity to develop a shared campus at the College as a cost effective means of delivering a high quality arts centre for the area. They make a strong case for the capacity of the venue to be increased to 500 seats and for the associated facilities to be provided accordingly.

3.2.5 The business case for the arts centre is based on a series of assumptions:

- Delivery of the project within a viable financial budget involving the commitment of capital from the Council and ongoing revenue support from FCT.
- FCT to programme, manage and run the arts centre on an exclusive basis. (The College will be able to book the centre in line with other hirers as part of the wider programme).
- There will be extensive opportunities for collaboration with students as part of their curriculum. Post qualification and pre-employment experiences will also be present.
- There will be opportunities for the voluntary arts sector to build on their existing partnerships with the College.
- The College will provide the shared use spaces outside the auditorium for the arts centre use at no additional capital cost.
- Successful resolution of issues concerning the treatment of VAT and Land and Building Transaction Tax (LBTT) for works involving the College, FCT and Council.
- A development agreement between the Council and FVC will guide the development and construction phases.
- The campus will be jointly managed on an ongoing basis through a lease and an agreement between the Council, FVC and FCT.
- FCT will be responsible for the ongoing running costs associated with the operation of the Centre.

3.2.6 This approach forms the basis of the proposal and the business case suggests a theatre of 500 seat capacity as being the optimum approach to be adopted balancing both aspiration and affordability. Whilst the project originally envisaged a basic 400 seat auditorium costing £4m, the desired increase in capacity to 500 seats, design adjustments to secure the required theatre environment together with provision of necessary stage and ancillary equipment and infrastructure appropriate to a modern arts centre has given rise to the increase in project cost.

3.2.7 A shared campus is envisaged whereby the College and FCT share community facing spaces including access road, parking, reception / box office, café bar and refectory, public toilets and entrance and foyer. This will all be provided by the College as part of the build but at no capital cost to the Council. The value of these works is estimated at £4.8m. Were the Council to pursue construction of a replacement facility separately, these elements would all represent an additional cost to the project. On this basis, the Council and FCT have the opportunity to obtain the benefit of an arts centre costing £11.8m for the anticipated capital sum of £7m. A Development Agreement will be established between FVC and the Council for provision of the arts centre facility. This agreement is currently being developed with FVC in the context of the recent changes arising from the capital funding model.

3.2.8 In terms of operating arrangements, the arts centre would be managed and operated by FCT. The entire campus building, including the arts centre, will be maintained by the College who will procure a provider for relevant facilities management and lifecycle maintenance services. The Council will be responsible for paying the annual costs for these services to the College and thereafter making the necessary budget adjustment with FCT to meet these costs consistent with those anticipated in FCT's business case. The Executive Summary of the business case is attached as appendix 2. The full business case is available and is referred to as a background paper.

3.2.9 As noted at 3.2.7 above, there are a number of shared spaces, resources and attendant operating costs. It is proposed that an Interface Agreement will be drawn up which will identify and define these relationships and demonstrate each party's obligations in this respect.

The key interfaces are as follows:-

- Operating hours
- Staffing / management
- Hard facilities management, statutory and lifecycle maintenance (carried out by the College with costs recorded via annual charge)
- Soft facilities management, including utilities, cleaning, security, waste and relevant grounds maintenance (recharged by means of an annual service charge)
- Health & Safety
- Licensing
- ICT
- Insurance
- Service delivery, including hospitality

3.2.10 Relevant maintenance and servicing costs rechargeable to the arts centre will be apportioned to the arts centre, together with a percentage proportion of the shared spaces. The current estimated cost for these services on the basis of floor area supplied is £88k per annum for hard FM and £75k per annum service charge for soft FM. Some of these services (and resultant costs) will be subject to a procurement exercise to be conducted in time for the opening of the new facility with the remainder provided by the College. The costs are anticipated to be the maximum amounts required at this stage for these services.

Delivery Arrangements

3.2.11 Further work on preliminary design and costings for the new facility to be developed as an integral part of the new College campus has taken place, most recently in the context of the design and build delivery model. This process has included a series of meetings involving officers of the Council, FCT and College together with the project manager, project architects and specialist theatre designers. A number of alternative design solutions have been considered, appraised and costed. This exercise has enabled the necessary design amendments to be incorporated to ensure that the Council's and FCT's requirements and detailed specifications are fully reflected in the evolving arts centre and shared spaces design in a cost effective manner. This work suggests that a facility incorporating 500 seats together with the necessary ancillary spaces can be delivered consistent with the Trust's business case in the sum of £7m.

3.2.12 As noted in paragraph 2.1.7, FVC has recently notified the Council that it intends to procure the new College campus building and arts centre facility by means of capital procurement on a design and build basis. Accordingly, Council officers and external specialist advisers are currently working to ensure that the proposals in this revised procurement route are optimal. Subject to the outcome of the procurement process and timescales for receipt of the necessary statutory approvals, site start is anticipated in Autumn 2017 with completion Autumn 2019. The annual maintenance charges referred to in paras 3.2.8 – 3.2.10, in relation to the new facility would require to be met annually following handover. FCT has confirmed that it is in a position to meet these costs in terms of its business case on the basis of anticipated revenues from the new facility and continuation of the existing town hall subsidy from the Council of £322k p.a.. This would allow the Trust to operate the new facility on a cost neutral basis due to significantly increased projected income. The risk of any shortfall in these projections would lie with FCT. These arrangements will form part of the subsequent finalisation in suitable terms of a lease, Development and Interface Agreements as required, should the Council agree to proceed further with the proposal.

3.2.13 The arts centre will be available to the Council on completion and it will lease the building to FCT as operator. Detailed discussions have been taking place between the Council, College and Trust in relation to the day to day management and operation of the facility and these arrangements will be formalised in terms of the Interface Agreement. These proposals require to be approved in principle by the Scottish Funding Council and the respective Boards of Falkirk Community Trust and Forth Valley College and will be subject to agreement of the necessary formal documentation in acceptable terms between FVC, the Council and FCT governing respective obligations and responsibilities.

3.2.14 Subject to formal FVC Board and Scottish Funding Council approval, Forth Valley College's current development programme now envisages commencing the OJEU procurement process in November 2016.

VAT

3.2.15 The optimum means of addressing the VAT considerations in the arrangement between the College, the Council and FCT concerning the project's delivery acceptable to all parties requires to be confirmed particularly in light of the recent change to a capital funding model. These matters are considered in more detail below:

i) The Council and Forth Valley College are each subject to differing regulations in respect of VAT treatment and recovery. Given the potential for a 20% VAT liability and thus a proportionate increase in the £7m cost of the arts centre, it will be essential to ensure the approach to procuring the project is VAT neutral for the Council. The VAT considerations were made complex under the NPD model which introduced a third party to the financial transactions involved in delivering and managing the facility. These are, to an extent, more simplified in the new capital grant model of delivery.

ii) Forth Valley College has obtained specialist VAT advice and this has been shared with the Council. The Council's specialist VAT advisors have separately provided their advice on the potential options for progressing the arts centre project in conjunction with Forth Valley College.

iii) Five potential approaches were identified by the College which have, in turn, been considered by the Council's advisors.

These can be summarised as follows:-

Option 1 – This reflects the position at present, i.e. where the College has not opted to tax the new campus. No VAT recovery would be possible.

Option 2 – VAT recovery on construction of the arts centre via College opting to tax

Option 3 - As for option 2 but with the new campus building redesigned in order to separate and clearly define the arts centre from the College campus

Option 4 - No VAT issue – College transfers land to Council and a separate company incurs cost and recharges construction services to the Council

Option 5 - VAT recovery on construction of arts centre due to onward sale to Council

iv) These options have been appraised in detail by the specialist advisors.

Option 1 can readily be discounted as this would increase the arts centre project costs by 20%, ie. £1.4m.

Option 3 would necessitate significant redesign of the new campus building which would present logistical challenges. Such an approach would incur significant additional costs in the form of fees payable to the design team. This would result in a significant delay to the project which in turn would lead to significantly increased project costs arising from construction cost inflation. Given that these costs are estimated at c£300k per month for the College's project they are understandably unable to consider this option and it is therefore discounted.

Option 4 would require the Council to contract separately for the construction of the arts centre directly with the contractor appointed by the College. This proposal would also require a review of the design process in order to ensure that the arts centre element of the overall Campus building would be capable of being separately tendered, constructed and built out. This approach would present significant logistical challenges and practical considerations arising particularly from the procurement of 2 separate contracts to construct what is an integrated facility with shared spaces and common areas. Given the issues, this option is not recommended for further consideration.

v) The remaining Options 2 and 5 have accordingly been subject to further detailed examination and consideration in conjunction with Forth Valley College in the context of the capital funding model.

vi) Option 2 – Implications

This approach would be VAT neutral for the Council. In this option, Forth Valley College would lease and opt to tax the arts centre element of the project. This process requires the College to consider disapplication rules. The advice received recommended that HMRC agreement be sought to confirm that the College is not considered to be 'in occupation' of the arts centre or has use of the facilities falling short of a right in land. Whilst the Council's advisors suggest that a positive case can be made in this respect, this approach requires that the College liaise with HMRC in order to secure their agreement to proceeding on the basis that the disapplication rules will not be applied. Accordingly, the College have approached HMRC on this basis and further advice is currently awaited on the outcome of this consideration.

vii) Option 5 – Implications

This option would be VAT neutral for the Council. In addition to the College constructing the arts centre facility it would involve the Council acquiring, potentially by way of a lease, the land on which the arts centre is to be built. A detailed agreement would be entered into securing the Council's rights to the facility including access and use the shared spaces (foyer, car parking, toilets etc) within the building. The construction works for the arts centre would form an addendum to the main contract with costs invoiced separately. This approach is required to ensure the VAT on the Council build is recoverable.

viii) Discussions with FVC have been taking place in order to confirm the most appropriate option. In each proposal the combined ongoing annual costs in respect of maintenance (hard FM) and service charge (soft FM) are anticipated to be subject to VAT. These costs would therefore require to be channelled via the Council to ensure VAT recovery with the necessary budget adjustments made with FCT. Each option will also remain subject to FVC obtaining Scottish Futures Trust and Scottish Funding Council consent and confirmation from their legal advisors and HMRC on the acceptability of these arrangements.

ix) In relation to options 2 and 5 above, the terms of the transaction will also require to be finalised in order to mitigate any LBTT requirements and further discussions are taking place to conclude this approach. Notwithstanding whichever VAT option is selected it must result in a nil or minimal LBTT impact.

3.3 Arts Centre Funding

3.3.1 As noted at 3.2.11 above, the estimated cost of provision of the arts centre is now anticipated to be £7m, subject to a detailed costing exercise presently underway. This reflects the recommendation in terms of the business case prepared on behalf of FCT that the capacity of the auditorium be increased to 500 seats and the design development and cost appraisal exercise previously referred to.

3.3.2 Consideration has been given to potential means of meeting the additional cost of £3m required to supplement the £4m available budget for delivery of the facility. The economic development and tourism related benefits arising from the provision of the arts centre are acknowledged. It is anticipated that the provision of the arts centre will complement and enhance local visitor attractions including The Helix Park, Kelpies and Callander House and that its provision will help to attract and retain visitors to the Falkirk area. The proximity of the arts centre would be a significant boost for the attraction of a hotel and conference facility which is a key proposal in the work that has been undertaken for the Falkirk Gateway. Council agreement to progress the Falkirk Gateway project was granted at the March meeting of the Executive.

3.3.3 The provision of the arts centre facility would assist delivery of the Falkirk TIF initiative, of which the Gateway is a key component. TIF funding is available to address the 'but for' constraint in relation to development in that, but for the provision of gap funding via TIF, development will be substantially delayed or would not be achieved. This is the case at the Falkirk Gateway site and the business case for the TIF anticipates provision of enabling funds to support its delivery. Marketing work undertaken by Ryden has confirmed the benefit of pursuing a hotel and conference facility in the first phase of the site. Disposal of a site at the Gateway would enable the attraction of capital receipts (to be shared jointly with Callander Estates, joint owners at the Falkirk Gateway site). The hotel would also generate rates revenue which would contribute towards meeting the TIF loan debt incurred for the relevant gap funding.

3.3.4 The first phase of the Gateway would require the provision of TIF support for the initial infrastructure and it is suggested that some of this financial support might be directed towards meeting the additional cost of the arts centre, in particular in helping to meet the costs for the provision of site servicing and energy related infrastructure costs for the development. As a consequence it is suggested that a contribution from TIF of up to £1m be provided as a contribution to the arts centre project. Agreement to the provision of enabling funds from TIF towards delivery of the arts centre is in place from the TIF Executive (involving Scottish Government, Scottish Futures Trust and the Council).

3.3.5 This leaves a sum of £2m meantime to be subject to a potential call on the Council's 2019/20 capital programme. However options to secure external funding, eg. from Creative Scotland are continuing to be explored in conjunction with FCT. Such contributions would offset the level of capital programme funding shortfall.

3.4 **Summary of Current HQ and Arts Centre Project**

3.4.1 The benefits and risks associated with the delivery of the current option (option A) for the headquarters and arts centre project is summarised as follows:-

Benefits

3.4.2 As previously reported to Council on 24th August, 2015, there are significant benefits accruing from delivery of both projects. These relate to :-

- Completion of modern, sustainable and efficient assets suited to the long term needs of the Council and wider Falkirk community
- Introduction of modern, more efficient ways of working

- Provision of modern civic accommodation in the town centre, suitable for community use, including in the evenings and at weekends
- Rationalising the relevant Council existing office base from four office buildings into one, with a reduction of floorspace usage by 50%
- A substantial reduction in carbon emissions over the four buildings presently occupied
- Stimulating regeneration through relocating an additional 280 staff to Falkirk town centre
- Supporting and helping initiate development at the Falkirk Gateway to assist delivery of the Falkirk TIF
- It is anticipated that c260 jobs will be created during the construction phase of the projects
- providing a combined learning and cultural asset which is complementary to the existing assets at the Helix and Falkirk Community Stadium
- joint working with community planning partners to secure outcomes which meet the Council's strategic objectives and
- Demonstrating the Council's commitment to lead the delivery of new and innovative forms of development, adopt modern ways of working and to be in the vanguard of change for its community

Risks

3.4.3 Whilst, as with any development project of this nature, there will be risks arising from proceeding, eg. cost increases and/or programme slippage, these would be mitigated by the manner in which the project will be procured via (in the case of the office HQ) the HubCo delivery arrangements. These provide that, following agreement on the confirmed Stage 2 cost (£16.340m), the price for the office HQ building can only vary in respect of minor client changes or matters outwith the control of both parties. Some provision for this is included in the estimated total project cost of £19.815m.

3.4.4 Any risk of cost overruns or programme slippage in respect of the arts centre will be addressed through regular project monitoring which is to take place with FVC. The final price for delivery of the arts centre will be determined following the conduct of a procurement exercise to be conducted by FVC during 2016/17.

3.4.5 Allowances have also been made within the construction costings to reflect the impact of price inflation over the duration of the anticipated contract periods for both the HQ building and the Arts Centre.

4. OPTIONS FOR CONSIDERATION

4.1 As agreed by Council on 16th December, officers have undertaken a full review of each of the alternative approaches available and their implications. This work aligns with the Council's Asset Management Strategy and its review of office utilisation which each reinforce the need to rationalise office accommodation, increase the efficiency of space occupied and modernise its provision. The Council's Office Utilisation Review has recently been updated and this report highlights the following:

- The Council occupies 46 offices in 28 locations across its area
- These extend to 29,900 sq m accommodating 1915 staff
- Annual office running costs were £3.1m in 2014/15 including rates, energy, rent, maintenance, cleaning and insurance costs

- The average space per FTE is 12.16 sqm.
- A deskspace:FTE ratio of 1.14:1
- The average cost of office space per FTE is £1,840.

4.2 It is also recognised that the existing buildings occupied by the Council forming this review are close to the end of their serviceable life and that ongoing maintenance of these buildings is necessary to ensure they can operate as safe and healthy workplaces in the medium to longer term.

4.3 A summary of the anticipated cost for delivery of each option is included in Appendix 1. It identifies the capital costs in gross and net terms and the revenue budget impact in years 1-5 and on completion of the construction phase (beyond year 6) when cash flows settle into a regular pattern. It must be noted that in the event that a decision is taken in principle to proceed with an option other than option A, a significant amount of further project development and appraisal will be required to scope and confirm such an option in more detail prior to presenting a further more detailed report on the full implications and costings of the alternative approach.

Option A – proceed with project as currently envisaged.

4.4 As noted in section 2, a number of approaches to meeting the Council's headquarters accommodation requirements were previously considered. Option 4(a), being the staged approach to development of new office and civic/town hall accommodation, was considered to be the optimum approach to progressing the project both in financial and non-financial terms, at the meeting of the Executive on 25th February 2014.

4.5 In terms of the preferred location for the project, the Executive on 17th June, 2014, considered a report which identified 6 potential sites, i.e.

1) site at Municipal Buildings, Falkirk
2) Meeks Roads car park
3) Melville Street car park
4) Land to south of Falkirk Stadium
5) Land at Falkirk Gateway
6) Abbotsford House environs

Members determined the existing Municipal Buildings site as the preferred location for the development in light of the town centre regeneration and other benefits arising.

4.6 Following further consideration by the Member/Officer Working Group, at the Council meeting on 8th October 2014, it was agreed to initiate the next stage of design for the Council HQ project commissioning Hub Co to prepare a stage 1 design and project documentation. The proposed scheme included office accommodation for 512 FTE staff relocating from Municipal Buildings, Abbotsford House and Callendar Square together with accommodation for elected members and a multi-functional Council Chamber.

4.7 In respect of Falkirk Town Hall, the meeting on 8th October 2014 agreed to continue with a detailed options appraisal analysis of potential sites and funding sources and development of a business case for a replacement town hall in conjunction with FCT.

4.8 The Council meeting on 24th August, 2015, considered the following eight potential locations for locating a replacement Town Hall/arts centre:

1. Municipal Buildings, Falkirk site
2. Meeks Road car park
3. Melville Street car park
4. Westfield / Falkirk Gateway
5. Kemper Avenue car park
6. Callendar Park
7. Middlefield Campus, Forth Valley College
8. East End / Callendar Square

It was agreed that the principle of replacement town hall / arts centre on the Middlefield site be pursued in partnership with Forth Valley College and Falkirk Community Trust and subject to a detailed business case for final approval by Council.

Option A – Project cost (refer to Appendix 1)

4.9 The total capital cost for this option (new build HQ on existing site and new arts centre on College campus) is £26.815m (£19.815m for the office HQ and £7m for Arts Centre) less existing capital budgets, anticipated capital receipts and TIF contribution giving a net cost of £23.112m, to be borrowed over 35 years.

This would incur an additional maximum revenue costs of £96k per annum at year 6, however, external grant funding will be sought to reduce the net capital cost of the arts centre by up to £2m which in turn, if fully achieved, would result in a net revenue cost reduction of £122k per annum giving a net saving of £26k per annum from year 6 onwards

4.10 **Options for an alternative approach**

Option B - Proceed with new Council headquarters and refurbish existing Falkirk Town Hall.

i) This option assumes the new office headquarters project is progressed as currently developed. However recognising that the arts centre proposal at Forth Valley College may not be able to be pursued, it considers refurbishment of the Town Hall.

ii) Advice from FCT is that this investment would not align to its aspirations for a modern, fit for purpose arts centre nor provide any improvements to the configuration of the auditorium. Such an approach would not address the existing shortcomings of the facility nor improve the prospects for marketing FTH in commercial terms.

iii) It must also be noted that this option will see the loss of the resource and benefits of a new arts centre co-located with the new Forth Valley College campus. As stated previously this is estimated to have a capital value of £4.8m. Furthermore, a catalyst to help initiate development at Falkirk Gateway will be lost as will the opportunity to create a combined visitor, learning and cultural asset complementary to existing assets at the Helix and Falkirk Stadium.

iv) Redevelopment of the Municipal Buildings site would be fragmented in this option. The capital receipt which would have accrued from the surplus land at the Municipal Buildings site would not be realised due to the Town Hall remaining on site (£1.5m).

v) The estimated cost of refurbishing the town hall is a minimum of £4.5m.

Option B – Project costs (refer to Appendix 1)

vii) The total capital cost of this option is £24.315m which equates to a net cost of £23.112m after deduction of existing capital budget/receipts and will incur additional revenue costs of £386k per annum at year 6 of the project.

4.11 ***Option C - Proceed with new council office HQ and new town hall/arts centre building on existing Municipal Buildings site.***

i) Were this option to be pursued, further detailed consideration would require to be given to the location of the new town hall / arts centre on site. The most effective approach would likely be to conjoin this with the new office HQ. However, this would involve significant re-design work and potential for up to 6 months delay in the programme with the resulting implications for cost increases to the office HQ project arising from construction cost inflation. This figure is currently estimated to be £600k per annum. In addition further design fees estimated to be in excess of £100k would be incurred

ii) With this option, available funding will be reduced by c£1m due to a reduction in the capital receipt available from the surplus site as a consequence of the reduced site area available for disposal. Estimated cost of constructing the new arts centre on the Municipal Buildings site to an equivalent specification as that outlined in paragraph 3.2.3 is £9.5m.

Option C – Project costs (refer to Appendix 1)

iii) This approach results in a total projected capital cost of £29.829m which equates to a net cost of £28.126m after deduction of existing capital budgets/ receipts. This would incur an additional maximum revenue requirement of £376k per annum at year 6 which could reduce by up to £122k per annum if external funding is achieved.

4.12 ***Option D - Proceed with new office HQ on site and construct new arts centre on an alternative site elsewhere in Falkirk town centre.***

4.12.1 As noted in para 4.8 above, eight potential locations (including the existing MBF site) for locating a replacement Town Hall / arts centre were previously considered and appraised. This appraisal addressed financial and non-financial considerations in a high level assessment which tested the delivery of a standard building footprint at 1,725sq.m (gross internal area). This approach allowed comparison of the capital costs for delivery of the building at each of the locations. The estimated capital costs for each option range considerably given the varying complexities of developing each site.

i) The site at Melville Street car park is significantly constrained in terms of its size and would offer very significant design challenges in order to fit the arts centre on this site. No on-site car parking could be accommodated. From a capacity and functional perspective this is considered an inflexible and thus unsuitable location.

ii) Whilst a somewhat larger site, Meeks Road car park has physical constraints relating to access, proximity to adjoining residential properties and the railway line adjoining the site immediately to the south. These issues would similarly present design and construction challenges and as such this site is not considered to represent a viable location.

iii) A standalone site at Westfield / Falkirk Gateway has also been considered, however, given the costs of providing site servicing and infrastructure this has proven to be the most expensive option in respect of alternative Council owned sites. While a TIF contribution towards these costs might be possible this site still does not present a value for money approach for either a stand-alone arts centre or HQ when compared to alternative options available, particularly when compared to the shared used benefits of the FVC campus and Municipal Buildings options.

iv) The site at Kemper Avenue car park has also been considered, however, size, access, visibility and locational constraints combine to exclude this site from consideration as a viable alternative.

v) A site in Callendar Park diagonally opposite Callendar House was also considered. This site, however, would present very significant planning, access, design and infrastructure challenges and as such is not considered to be a viable location.

vi) A potential developer led proposal centred on a wider Falkirk High Street East End / Callendar Square redevelopment was rejected on the grounds of the level of risk such an approach would expose the Council to, given that the developer was seeking a rental guarantee of £1.385m per annum (with provision for 5% per annum rental increases) over the term of a 35 year lease.

4.12.2 In addition, each of the above alternatives would require the Council to meet the entire costs of the shared spaces and common parts of the arts centre (estimated at £4.8m). These are being met by FVC in terms of the College campus co-location model. Privately owned sites have not been considered due to the cost of acquisition which will impact significantly on affordability.

Option D – Project costs (refer to Appendix 1)

4.12.3 New build costs on a separate site are estimated to be a minimum £11.3m for a replacement Town Hall / arts centre which meets the necessary equivalent recommended specification as recommended by FCT. On this basis, with the replacement office HQ, the total capital project cost is £31.115m which equates to a net cost of £28.412m after deduction of existing capital budgets/receipts. This would incur an additional maximum revenue requirement of £374k per annum at year 6 which could reduce by up to £122k per annum if external funding is achieved. These costs will, however, be subject to site specific conditions (and, in the case of the Westfield site, potential TIF support). In this option the values of the alternative sites would be lost. This could be of particular significance at the Gateway site.

4.13 ***Option E - Cancellation of project – Municipal Buildings, Falkirk, Town Hall and Abbotsford House subject to phased repairs (do minimum option).***

i) This option addresses the situation should the Council decide not to proceed with the new headquarters project. In considering this option it is important that the significant risks associated with continued use of existing buildings is taken into account.

ii) The initial lease for Abbotsford House expired at the end of March 2016. The lease has been extended on a temporary basis, for an initial period of 15 months with optional 3 month extensions thereafter to a maximum period of 2½ years from March 2016, i.e. to the end of September 2018. The rent for the lease extension has been agreed at £200k per annum.

iii) The lease for Callendar Square also expired in early 2016 and agreement has been reached to extend the lease for an initial period of 1 year at the current annual rent (£146k). Subject to a decision on the nature of future service delivery from this location, and in the context of the One-Stop Shop review a 'down-sized' front-office operation would require the c50 back-office staff who would otherwise have relocated to the new Council Office HQ to be relocated elsewhere, e.g. to the Forum in Callendar Park, Municipal Buildings or other locations as determined as an outcome of the review of One Stop Shops.

iv) The most prudent and sustainable option, if not building a new HQ building to house staff from Municipal Buildings, Abbotsford House & Callendar Square, would be to purchase Abbotsford House, as soon as is practicable, and to carry out the maintenance and upgrading works that are required to the building. The building would benefit from thermal upgrading, significant weather envelope works, renewal of heating system, power and lighting circuits and other service elements, and refurbishment of internal finishes including some asbestos removal.

v) Costs for the works to Abbotsford House are currently estimated at circa £2m. Negotiations on the purchase price have not been undertaken however the building is presently on the market inviting offers over £1m. From discussions with the District Valuer, and consideration given to the worth of the premises to the Council it is considered that a purchase in acceptable terms could be negotiated. Subsequent to purchase, ongoing maintenance of the building in line with best practice should be carried out. Savings in energy costs & carbon tax (through increased insulation levels and more efficient heating) and a reduced repair bill would, along with current maintenance budgets, be directed to the annual maintenance bill.

vi) As has been well documented, the Municipal Buildings and the Town Hall buildings, in their current condition, are not fit for purpose with the building fabric and service installations requiring substantial refurbishment or replacement. Ongoing repairs to the building over the last few years have been confined to statutory compliance and keeping the building safe. However, recently more regular issues have arisen in relation to lift maintenance, security and damage to ceilings as a result of water ingress with resultant impact for service delivery. The 'do minimum' option presented to Members in previous reports to Council has cautioned that this option is the least sustainable and most costly in whole life terms as well as offering no added benefit in accommodation quality, utilisation or efficiency.

vii) Subject to further detailed validation and updating, it is anticipated that circa £10.6m would require to be expended under the 'do minimum' option for upgrading and repairs to both the Municipal Buildings and Town Hall buildings. These works would be phased, require to include ongoing maintenance and would require asbestos control measures. Consistent with best practice and, as with Abbotsford House they could be partially funded from savings from reduced energy costs, lower carbon tax and existing budgets. It may be possible, by moving towards the new ways of working agenda, for the back office staff from Callendar Square (approx. 50 FTEs) to be moved into Municipal Buildings after the minimum repairs works have been carried out.

viii) A consequence of adopting this as an alternative would, of course, be that the collaboration with Forth Valley College to build a new arts centre as an integral part of the new College campus at Westfield would not be possible. The capital benefits of this (estimated at £4.8m), town centre regeneration and economic development benefits would also be lost.

ix) It should be noted that the Council's mobile and flexible working project could only be partially delivered should this alternative be pursued and the aim to modernise the way in which we work would be significantly compromised. This is because of the limitations of the configuration of the existing buildings which would not be addressed by this option.

x) There will be reduced scope for carbon savings in this option. This option also fails to meet asset rationalisation/office utilisation targets

xi) In addition, should this alternative be adopted, the option to build a new office headquarters would be indefinitely postponed as the capitalised fund would be insufficient to meet necessary expenditure on existing buildings in terms of this option.

Option E – Project costs (refer to Appendix 1)

xii) The total capital cost of this option is £13.925m which equates to a net cost of £12.722m after deduction of existing capital budgets and receipts. Cancellation of the project would incur one off revenue costs of £560k for design and potentially £470k fee costs from HubCo.

xiii) Were this option to be pursued and taking account of additional borrowing, it would result in additional revenue costs of £760k from year 6. It should be noted that the capital borrowing period for these works is significantly shorter (10 years) reflecting the limited time period that the works will offer in extending the life of the building.

xiv) It should also be borne in mind, as previously advised by Hubco in the outline business case, that the whole life costs of the project, in this approach, would be significantly in excess of the currently estimated £43m over 30 years for the new build HQ. To operate and maintain Municipal Buildings & Abbotsford House for 30 years, whole life costs were estimated to be in the region of £55m - £60m.

4.14 *Option F – Cancellation of HQ Project – Proceed with Arts Centre, Phased Repairs to Municipal Buildings and Abbotsford House*

i) This option addresses the situation where the new HQ does not proceed and a decision is made to progress the new arts centre at Forth Valley College.

ii) The consequences of taking such a decision would deliver the benefits of the new arts centre but significant risks are associated with continued use of the Municipal Buildings and mothballing the Town Hall (see section 5). Targeted repairs would be necessary to the Municipal Buildings, at an estimated capital cost of £9.125m.

iii) There are 2 sub options here in respect of Abbotsford House:

F1 *to purchase and upgrade* at a total estimated cost of £3.3m. This would result in a total capital cost for the overall project of £19.425m which equates to a net cost of £17.222m after deduction of existing capital budgets/receipts with additional revenue consequences of £913k from year 6 which could reduce by up to £122k per annum if external grant funding for the arts centre is achieved

F2 *to continue to lease* (with no upgrade) which would result in an overall project capital cost of £16.125m which equates to a net cost of £13.922m after deduction of existing capital budgets / receipts with additional revenue consequences of £851k from year 6 which could reduce by up to £122k per annum if external grant funding for the arts centre is achieved.

iv) Although there are slightly higher costs associated with purchasing Abbotsford House this is considered the most prudent and sustainable option in the scenario that the new arts centre and phased repairs to the Municipal Buildings will be progressed.

5.0 IMPLICATIONS OF MAINTAINING THE STATUS QUO

5.1 In the event that the Council does not wish to commit to proceeding with any of the above options to provide a longer term solution, the implications of maintaining the status quo relate to risk to business continuity, health & safety, staff welfare and of reputational damage. In addition, there would be substantial maintenance obligations from a general repair and statutory compliance perspective with commensurate financial outlays.

5.2 The existing revenue budget provision expended on operating Municipal Buildings, Abbotsford House and Callendar Square would continue to be required, other than that for the rental savings of £390k per annum at Abbotsford House achievable until September 2018 at which point a decision will be necessary on the future location of Development Services. The ongoing costs of running Callendar Square One Stop Shop would require to continue to be met, together with the cost any necessary repairs, at least until the end of the calendar year. Thereafter, depending on decisions on the future approach to service delivery from this location, some of this budget provision may be available. The current budget for the running costs associated with the Callendar Square facility is £315k per annum

5.3 Municipal Buildings requires major investment in fabric upgrading and main services renewal. There are health & safety issues relating to fire safety, building security and the condition of the public realm areas all of which will require to be addressed to some degree, as well as failing building elements such as wall & roof cladding and windows which may need reactive intervention depending on the degree of failure. Thermal efficiency is extremely poor which results in very high energy costs.

5.4 For the last few years, while this new HQ project been progressing, these issues have been managed by means of risk assessment together with benefit to cost analysis to prioritise works in order to ensure a value for money approach is pursued. This has been based on a minimum investment strategy consistent with meeting statutory obligations however this approach is not sustainable in the medium to longer term.

5.5 The current condition of Municipal Buildings has a direct impact upon the ability to maintain a satisfactory working environment within the building, and therefore the ability to provide business continuity. The failure of any one of the main building components or primary services has the ability to disrupt the entire complex (eg the boiler plant or main electrical services). Recent failures to the roof have led to disruption to third floor areas, and one of the two lifts is currently out of commission, awaiting parts that are special order due to age of the equipment.

5.6 Many of the primary services are located in parts of the building containing asbestos materials, which must be dealt with prior to any repair or replacement works being implemented, prolonging the period of disruption and considerably increasing the cost of any repair works.

5.7 The FTH complex has a similar range of essential repair issues as the office complex, with replacement of key building elements required (roof coverings, single glazed screens, mechanical and electrical services – the primary elements of which are shared with the office complex). There are particular problems with the fan convector heating units currently serving the FTH complex.

5.8 In the case of the Abbotsford House, the external and internal fabric of the building requires replacement of key building elements to address ongoing problems with water penetration, environmental control and health & safety.

5.9 In addition, the primary services in Abbotsford House comprise equipment in the order of 20 years old and are approaching end of serviceable life. Although not as urgent as those of the Municipal Buildings, repairs and renewals of these services and to the building fabric are likely to be required within the next 3 to 5 years.

5.10 Currently, similar to Municipal Buildings and FTH, repairs are carried out on a risk assessment basis with minimal expenditure on priority works.

5.11 Consideration will also have to be given to the future location to Development Services after the lease extension to September 2018 runs out. Provision for the costs associated with dilapidations to the building may also be necessary should relocation be proposed.

6 IMPLICATIONS

6.1 Legal Implications

6.1.1 Delivery of the Council headquarters project has been progressed through the Council's membership of the national HubCo initiative. As a member of the East Central Hubco Territory, the Council has access to a streamlined method for the design and delivery of the headquarters project. Should the Council determine to proceed with the headquarters project, formal agreements would require to be entered into by the Council, Hubco and Robertson Construction Group, the primary contractor for delivery of the project, and reports in relevant terms presented to Members for approval. A programme of advance works and site preparation would also be initiated.

6.1.2 Delivery of the arts centre facility via the College's capital project is being supported through the Council's external specialist advisers and is anticipated to be governed in terms of a lease, Development Agreement and Interface Agreements previously referred to. A lease would require to be entered into between the Council and FCT. Heads of Terms in respect of these agreements are being finalised as part of the on-going discussions with the College and Trust. Following completion of the OJEU procurement exercise for the College and arts centre campus, a report detailing the project's delivery and finalised costs for delivery will be presented to Members.

6.1.3 The Council will require to ensure that it meets the necessary statutory obligations in terms of providing a safe working environment for staff during the construction period and proposals for this have been identified as a component of the Hubco works programme.

6.2 **Financial Implications**

6.2.1 Appendix 1 summarises the financial implications of each option. It identifies the implications for the revenue budget for years 1-5 and for beyond years 6 once the procurement, construction and relocation period have been completed and the cash flows settle into a regular pattern.

6.2.2 There are a number of additional financial implications which need to be considered should Members agree to proceed with the projects or alternatively if Members decide to defer or cancel the projects. These implications are detailed as follows:

Projects Proceed

6.2.3 The anticipated cost of the replacement Council office HQ is based on build costs of £16.340m per Hubco, as described in paragraph 3.1.5. The balance of the office HQ costs shown in the table at 3.1.5, save for the acquisition of Westbank clinic, will be subject to a tender exercise and there is therefore the potential for these costs to move. In addition, the FVC project is also to be tendered and a similar situation prevails there. The figures contained in Appendix 1 should be viewed in this context.

6.2.4 The potential VAT implications for the project have been considered in detail and specialist advice obtained from the Council's advisors indicating that the current route being proposed is that FVC opt to tax the arts centre which will enable the VAT on all arts centre related expenditure to be reclaimed. Should this route not be pursued, the option of the Council acquiring the property (per Option 5) is proposed. The Council's VAT advisors confirm that either of these approaches would provide a neutral VAT position both for the Council and the College. An agreement in similar terms to mitigate any potential LBTT payment will also be necessary. This will however be subject to the College confirming its agreement to this approach and in turn the necessary adjustments reflecting the preferred position being made in the legal documents.

6.2.5 Advice has also been sought from HMRC on the VAT position with regard to Option 2 or Option 5. The figures in Appendix 1 assume a favourable VAT neutral decision by HMRC. In addition to this favourable VAT decision, a timely response is also assumed. General experience with HMRC is that responses are often not timely or definitive. However, as previously stated, in the event that the VAT and/or LBTT positions cannot be resolved favourably, this matter will be reported back to Members for further consideration.

6.2.6 There will also be an annual maintenance charge for the arts centre payable by the Trust. This is estimated in preliminary costings at £88k together with service charge estimated c£100k pa. These costs will be met by FCT from the existing budget provision and projected future income from the venue (ref FCT Business Case Summary – Appendix 2). The estimated ticket sales within the business case appear to be high in comparison to current levels. If the ticket sales do not reach the anticipated levels, the Trust will be in a deficit position on this project which they would need to cover from elsewhere within their operations.

6.2.7 The College will be undertaking an OJEU procurement exercise in November 2016. To comply with the College's procurement timeframe, if Members are minded to progress the arts centre and, by extension the replacement Council HQ, a decision is required in May. If not proceeding with this option, the Council will be losing the benefit of the £4.8m of shared facilities on offer by proceeding in partnership with the College. Further, if the Council were to withdraw from this project on the grounds of increased project costs after both the Development Agreement and Interface Agreement have been signed, then the Council might be liable for any additional costs that the College had incurred as a consequence.

6.2.8 The Council previously agreed to endeavour to fund the office HQ project and town hall replacement facility from within the financial envelope of current expenditure on the buildings affected, being £1.884m annually. On that basis, the business case for delivery of the Council office HQ facility identified a revenue saving of £262k annually and hence a potential capital sum of c£4m being available to be invested by the Council in the replacement town hall. In the absence of finalised costs and potential contributions from external sources at this point in time, the Council may consider the prospect of agreeing that the arts centre project be provided with an underwrite to its delivery subject to a maximum of £2m.

6.2.9 The capital costs for the arts centre facility anticipated on the basis of the FVC's design as recommended by FCT and are currently estimated to be £7m. Capital contributions towards the project e.g. from external sources are yet to be established. While none has been committed to date, it is anticipated that a level of contribution from bodies such as Creative Scotland can be pursued.

6.2.10 The additional annual revenue cost of both projects per Option A, as detailed in Appendix 1, is £96k per annum. This could be reduced to an annual saving of £26k per annum if £2m of external funding was sourced. However, this saving of £26k is marginal.

6.2.11 The Council has a robust and transparent capital bid process which aligns scarce resources with projects that are deemed to accord with the Council's priorities. It must be borne in mind that any capital investment in the arts centre via the call on the underwrite provision or funding of the entire £7m would be capital investment in a facility providing services which the Council is not obliged by law to provide. Consideration needs to be given to this in the context of the current financial pressure the Council faces.

Projects Deferred or Cancelled

6.2.12 The fees and costs incurred in progressing the Office HQ project to date total £560k. These would require to be recharged to the Council's revenue account if decision were taken for the HQ project not to proceed. There is also the risk of incurring fees from Hubco, which are estimated at £470k, if the Council choose not to proceed with capital works involving delivery through this procurement route. Fees have also already been incurred by FCT in progressing the arts centre design. No final figure is available at the date of this report but will be available for the Council meeting.

6.2.13 Any delay or deferment of the project will encounter costs in construction cost inflation (estimated £600k annually for the office HQ). This would also require to address the increased costs arising from design of any new accommodation to the 2015 Building Regulations and not the 2013 regulations of the present design. This is anticipated to present an increased cost of over £400K.

6.2.14 Section 5 of this report provides detail on potential additional investment required in the existing office complex should a decision on the long term proposals be deferred.

6.2.15 Figures included in options E to F are not robust and, as previously stated, more work would require to be undertaken to firm up on these costs should either of these options be pursued. In addition, the sums identified for an arts centre other than as part of the FVC replacement campus project will also be subject to alteration following any tender exercise.

7. CONCLUSIONS

7.1 This report confirms to Members that the work being undertaken on the office HQ project remains on target to enable the Council to proceed with the project following determination of the planning application and finalisation on the HubCo stage 2 costs (£16.340m ref table at para 3.1.5 and Appendix 1) at an anticipated net capital cost of £17.112m (see para 3.1.6). Delivery of the office HQ project is intended to deliver significant benefits from introducing more modern, sustainable ways of working and new civic accommodation provision in a town centre location. The net revenue cost based on the updated projections for the project is set out in Appendix 1 and suggests that the HQ project can be delivered substantially within the financial envelope arising from existing expenditure with a saving for reinvestment in the town hall/arts centre.

7.2 The business case produced by FCT for the new replacement Town Hall/arts centre as part of the new FVC campus at Middlefield confirms that delivery of a 500 seat auditorium is the optimum means of progressing a cost effective modern replacement facility for the existing town hall which fulfils the aspirations of FCT.

7.3 The capital and revenue assessment suggests that delivery of the project would be possible if the Council expressed its willingness to provide an underwrite to the delivery of the project at an anticipated maxiumum cost of £2m and that £1m of match funding be provided by TIF. The revenue costs would require to be met through the existing FCT revenue budget, augmented by additional income from the new venue.

7.4 The Council (and FCT's) position will be protected via the detailed terms of the lease, Development and Interface Agreements in terms to be formally agreed should the Council agree, in principle, to proceed with the project.

7.5 The previous options appraisal exercise considered by Council on 24th August 2015, identified that reflecting value for money considerations, co-location of the arts centre on the new Forth Valley College campus site at Middlefield was the only site that could deliver a solution that would provide the accommodation which FCT require within the parameters of the cost envelope identified at that time. This situation has now changed as narrated in this report.

7.6 Co-location of the proposed arts centre as part of the Forth Valley College new campus development has significant financial advantages in relation to the estimated £4.8m cost benefits arising from infrastructure and shared spaces being provided by the College

7.7 The proposal would deliver a new Town Hall/arts facility linked to the College's new campus development. The campus will form an integral part of the development proposals for the Falkirk Gateway site and represent a flagship development within the TIF initiative being led by the Council. Delivery of this integrated scheme is anticipated to provide a much needed impetus for tourism, investment and job creation and is well aligned to related developments in the vicinity including the Helix and Falkirk Community Stadium.

7.8 In summary, should the Council agree to proceed with the project:

The two projects at the College and the Council office HQ represent in combination, a significant, £100m+ investment in the physical fabric and civic facilities of the Falkirk area. This would provide modern, flexible and significantly more sustainable assets which will serve the area for the next 30+ years. These projects complement the investment anticipated arising from the Falkirk TIF initiative. Each project presents significant economic benefits including over 200 jobs arising during the construction phase for the HQ and arts centre project. They will assist with economic regeneration and the attraction of investment to the town centre, the Falkirk Gateway and the wider Falkirk area.

Work would be taken forward to conclude the necessary agreements and progress advance works to enable delivery as set out in this report. Reports on the detailed arrangements for delivery including the finalised Stage 2 costs, tendered costs for delivery of the arts centre and any legal agreements to be entered into will be presented to Members in due course.

7.9 Should the Council determine not to proceed with the project, in summary:

- It must address the situation where the recent reactive approach to buildings repairs and maintenance is not sustainable and clearly presents significant risks from business continuity, health & safety, welfare and reputational perspectives
- Existing revenue budgets will require to continue to be expended to maintain the status quo and significant additional expenditure will be required in the short to medium term to update/renew building fabric and services which will result in service disruption.
- There are risks in aborting delivery of major projects in the course of their development with consequences for e.g. delivery of the TIF and Falkirk Gateway
- Risks to staff morale may be encountered in sustaining operations from properties that are in poor condition and ill-suited to modern ways of working.
- Members will need to further consider in more detail the approach necessary for delivery of its office accommodation and Town Hall requirements.

8. RECOMMENDATIONS

8.1 It is recommended that Council:

i) Notes the current progress on the office HQ Project and content of the business case for the replacement Town Hall / arts centre;

ii) Notes the outcome of the updated review of the earlier option appraisal exercise undertaken;

iii) Determines the manner in which it wishes to proceed having regard to i) and ii) above;

iv) In the event that decision is taken to proceed with a new Council office HQ project and replacement town hall/arts centre at Forth Valley College, (option A) agrees that:

a. The Director of Development Services, in liaison with the Chief Governance Officer be instructed to proceed to finalise legal agreements in acceptable terms with Hubco for delivery of the Council office HQ project and with Forth Valley College and Falkirk Community Trust for delivery of the arts centre, these being subject to confirmation of planning approval in respect of the office HQ, the necessary approvals being achieved by Forth Valley College and a favourable outcome to taxation treatment in respect of the arts centre as described in this report.

b. The Director of Development Services be authorised to initiate the programme of enabling works necessary for delivery of the office HQ project.

c. any additional capital costs of the arts centre project to be incurred beyond the existing financial sums available from the Council headquarters project be met through an underwrite provision at a maximum cost of £2m to be established in future capital budgets if required.

d. Where necessary, should any issue arise that would have significant adverse effect on the delivery of either project, officers bring a report to Members for consideration.

v) **In the event that a decision is taken not to proceed with option A, Members advise on:-**

- **the next steps they consider appropriate to meet the Council's office headquarters and town hall accommodation requirements.**

- **Whether or not to withdraw the application submitted for planning permission in respect of the office HQ.**

…….

Director of Development Services

Date: 3 May 2016

Any person wishing to inspect the background papers listed above should telephone 01324 504952 and ask for Douglas Duff or Robert McMaster.

List of Appendices

1. Appendix 1 – Council HQ Options Appraisal – Financial Summary.
2 Appendix 2 – Falkirk Community Trust Arts Centre Business Case – Executive Summary

LIST OF BACKGROUND PAPERS

1. Reports to Executive – 25th February 2014 & 17th June 2014

2. Reports to Council – 8 October 2014, 24 June 2015 & 24 August 2015

3. Headquarters Project Full Business Case

4. Responses to consultation, May-June 2015

5. Hubco Stage 1 Report.

6. Town Hall/Arts & Performance Venue Feasibility Review and Site Options Appraisal

7. Falkirk Community Trust, Arts Centre Business Case

8. Office Utilisation Review, December 2015.

APPENDIX 1 : FINANCIAL SUMMARY

		Option A *New Build HQ on MB site & AC at FVC site*	Option B *New Build HQ on MB site & FTH Refurb*	Option C *New Build HQ & AC on existing site*	Option D *New Build HQ on MB site & AC on alternative site*	Option E *Cancel Project - repairs to MBF & AH (buy AH)*	Option F1 *Cancel Project - repairs, proceed AC at FVC (buy AH)*	Option F2 *Cancel Project - repairs, proceed AC at FVC (lease AH)*
	% Saving on Carbon Emissions (See Note 5)	*39.4*	*32.4*	*39.4*	*39.4*	*20.8*	*27.9*	*24.4*
CAPITAL COSTS	***Gross Capital costs***	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Office HQ	19,815	19,815	20,291	19,815			
	Arts Centre	7,000	4,500	9,538	11,300		7,000	7,000
	MBF Refurb					10,625	9,125	9,125
	AH Acq'n & Refurb					3,300	3,300	
	Minimal Repairs					`		
	Total Gross Capital Cost	***26,815***	***24,315***	***29,829***	***31,115***	***13,925***	***19,425***	***16,125***
	Available Capital Funds:							
	Accommodation budget	853	853	853	853	853	853	853
	Capital Receipts	1,850	350	850	Note 6 1850	350	350	350
	TIF	1,000			Note 7		1,000	1,000
	Total Capital Funds	***3,703***	***1,203***	***1,703***	***853***	***1,203***	***2,203***	***2,203***
	Net Capital Cost	***23,112***	***23,112***	***28,126***	***30,262***	***12,722***	***17,222***	***13,922***
REVENUE COSTS	***Current Revenue Costs p.a.*** **(see Note 3)**	**1,884**	**1,884**	**1,884**	**1,884**	**1,884**	**1,884**	**1,884**
	Loan Charges - HQ New Build	979	1,068	1,075	978			
	Loan Charges - Arts Centre	368		552	647		368	368
	Loan Charges - MBF and/or FTH repair		569			1,362	1,147	1,147
	Loan Charges - AH Acq'n & repair					262	262	0
	Operating costs **(See Note 4)**	633	633	633	633	1,020	1,020	1,220
	Total Revenue costs	***1,980***	***2,270***	***2,260***	***2,258***	***2,644***	***2,797***	***2,735***
	Net Revenue costs Years 1-5 (See Note 2)	***22***	***-837***	***-1,585***	***-1,615***	***-104***	***-122***	***-131***
	Net Revenue costs Year 6+ (See Note 1)	***-96***	***-386***	***-376***	***-374***	***-760***	***-913***	***-851***

Notes

1. Revenue costs shown are at Year 6+ following completion of works. If external funding of £2m for Arts Centre is secured, revenue costs could reduce by up to £122k/yr for Option A i.e. a net revenue saving of £26k p.a.

2. This is the cumulative net revenue costs for the years preceding completion.

3. Current revenue costs - all current costs for existing buildings

4. All operating costs associated with the Arts Centre of FTH remain with FCT

5. % reduction of carbon emissions for performacne in use. Buildings efficiency pro rata increases by 80%.

Option C - Gross capital includes redesign fees and consequential inflation costs for 6 months delay

Options E & F1 - Operating costs incl MBF & AH current running costs plus CS residual facility rent & running costs

Option F2 - Operating costs incl MBF current running costs plus CS residual facility & AH rent & running costs

6. The full capital receipt for the surplus MB site would be available but the value of the alternative site used would be lost

7. In the event that the Middlefield stand alone option was pursued (para 4.12.3) the TIF contribution would be available

Appendix 2

Falkirk Community Trust

Draft Arts Centre Business Case

Executive Summary

An opportunity has arisen through partnership between Falkirk Council and Forth Valley College to secure a new Arts Centre for the area. This has been triggered through the College's plans for a new campus in Falkirk emerging at the same time as the Council's intention to rationalise its Municipal Buildings HQ. It offers a unique opportunity to secure a modern Arts Centre costing £11.8m for the estimated sum of £7m.

Falkirk Community Trust leads the development and operation of arts venues and services on behalf of Falkirk Council and we have developed this Business Case in association with the Council and Forth Valley College. It presents details of how a new Arts Centre would revitalise the arts in this area and how the programming and management would be operated within the current level of service payment that we receive from Falkirk Council. The case is made for the value and benefit of a £7m capital investment in the arts that would provide the Falkirk area with a modern fit for purpose venue of a standard comparable to other local authority areas.

Falkirk Town Hall (FTH) is the current performing arts venue serving the Falkirk Council authority area. Located in a mainly residential area in the western periphery of Falkirk town centre, the building is around 50 years old, in poor condition and the layout and facilities it offers does not meet the modern-day needs of performing arts companies or audiences. FTH is co-located with the Council's Municipal Buildings and is therefore inextricably linked to any development the Council may undertake on that site.

The impact of the arts is far reaching. Primarily focused on people, the Falkirk area arts sector has a thriving voluntary sector and a core audience base established over the life of FTH. However the area has expanded rapidly recently and continues to do so, with a higher than average proportion of young people and families living here, providing a new foundation for future arts audiences. Coupled with a growing student audience on the campus, there is a strong argument that the area needs a replacement for FTH and that it should have a

refreshed focus on programming to both attract these potentially untapped new audiences and retain the existing audience.

The new Arts Centre would be located on the frontage of the College Campus and like FTH in a mainly residential area, this time to the eastern periphery of Falkirk town centre. This situation gives excellent accessibility both by foot, on public transport and easy access from the motorway network

The area's Creative Place Award in 2014 recognised the existing community enthusiasm for the arts as well as the potential that an investment in the arts could make to the lives of people living in the Falkirk area. This was revenue funding for specific programme strands however the same argument applies, and more so, to capital investment. Motivating more people to participate whether for well-being, learning, relaxation or sheer good fun is hugely reliant on attractive quality venues. A high profile visible location would not only provide a focal point for community participation, but would also attract visitors and enhance the image of the area.

The new Arts Centre would be a 500 seat venue capable of accommodating medium to large scale productions. It would have fixed seating with excellent sight lines to the stage and the stage would be capable of accommodating 80-100 cast members, allowing a range of performance types from orchestral and choral concerts to pantomime and popular music. Along with back stage and flying provision all these elements would be managed by Falkirk Community Trust through a lease from Falkirk Council in line with current governance arrangements.

A key financial benefit of partnering with Forth Valley College, in addition to the geographic locational advantages and access to the student body as an audience, would be the cost effective provision of shared areas. Internal shared spaces managed by the College, would include all front of house facilities to allow for ticket sales, circulation space, bar and light refreshments and toilets. Externally there would be shared car and coach parking and a shared access road to backstage areas. An Interface Agreement between the College and the Trust would provide the legal basis for this arrangement.

The programme for the Arts Centre would deliver for the Arts, for Learning and for Audiences. A single coherent programme would build on the many strengths of the Falkirk area's arts sector. Musical theatre, pantomime, seasonal classical programmes, local festivals, arts development initiatives and dance schools would continue but within a connected programming vision for the Arts Centre. New initiatives in music and comedy with a good mix and a proactive approach to attracting high profile names; fuller participation in national arts initiatives; and potentially with support from Creative Scotland hosting performing arts residencies, would all be possible along with training and development opportunities in the growing Creative Industry sector.

The revitalised programme would achieve significantly uplifted income targets which combined with hire charges would offset increased costs and enable the Trust to operate at cost neutral within the current subsidy level of £322,000. Programming on a more regular basis, with a good mix of popular and more challenging work, balancing the vibrant voluntary sector activity with professional programme would be the foundation for attracting audiences. The Business Case is founded on an increase in audience uptake of around 30% that we believe to be achievable.

The capital costs and projected revenue budget for the Arts Centre are summarised overleaf.

Ultimately with no additional revenue cost to Falkirk Council the communities of the Falkirk area would have wider access to popular entertainment, festivals, new art forms and old favourites, volunteering and learning in the arts all within a new fit for purpose theatre space.

Capital Cost Plan		Funded by	
Construction Prime Cost	3,707,103	Capital Funding	4,000,000
Operational Fit Out (post construction)	985,000	TIF Support	1,000,000
Preliminaries OH& P	674,265	Council Guarantee / External funding	2,000,000
Design Risk and Contingency	374,898		
Total	**£5,741,266**		
Add: Consultant Design Fees	693,209		
Client Contingency	95,125		
Inlfation to Mid Pt Q2 2018	470,400		
Total	**7,000,000**	**Total**	**7,000,000**

Projected Revenue Budget

Arts Centre Expenditure		Arts Centre Income		
Staffing	344,327	Ticket sales	450,000	
Property	148,657	Hall Hires	90,000	
Other operating	17,404	Tuition Fees	30,000	
Programme & production	402,770	Miscellaneous income	21,221	
Total expenditure	**913,158**	**Total income**	**591,221**	**Net Subsidy 321,937**