

*PART 1 - PUBLIC DOCUMENT	AGENDA ITEM No. 19
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TITLE OF REPORT: FUTURE OFFICE ACCOMMODATION PROVISION

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE
 PORTFOLIO HOLDER: COUNCILLOR T.W. HONE

1. SUMMARY

- 1.1 The purpose of this report is to confirm the direction for the provision of long-term office accommodation for NHDC staff as identified by the Office Accommodation Project .
- 1.2 At Cabinet on 15th December 2009 (minute 95), it was resolved that “the setting up of a new office accommodation project to be managed via a specific project board approach be authorised, the new project to cover the move of all staff to the District Council Offices and the development and implementation of a longer-term plan for office accommodation”. The relocation of all staff from Town Lodge and the Museum loft was the first stage of this project and has now been successfully completed.
- 1.3 The report provides information on relevant detail issues including broad costs, green initiatives, customer service requirements and accessibility.
- 1.4 The report acknowledges that other matters such as the impacts/ opportunities arising from Shared Services or other initiatives will impact on office accommodation requirements and that there is a need to build flexibility into any plans.

2. FORWARD PLAN

- 2.1 This Report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 1st September 2011.

3. BACKGROUND

- 3.1 At the Cabinet meeting held on 16th December 2008, the overall aims & objectives for the Office Accommodation project were specified as:
 - provide improved operational efficiency through the accommodation of staff at one primary office location.
 - assist the Council in meeting appropriate Council priorities, especially with regard to sustainability and green issues.
 - deliver improved ICT infrastructure services.
 - be capable of accommodating changes in service delivery, including new ways of working such as hot-desking, mobile working, home working, shared services etc.
 - be revenue cost neutral.
 - remain in Letchworth town centre and be fully accessible to staff and customers.
 - be capable of being delivered within a reasonable time scale, at realistic capital cost and without major impact on the running of existing services.
- 3.2 An office accommodation Project Board was established under PRINCE2 guidelines with the Strategic Director, Finance Policy & Governance undertaking the Project Executive role and Deputy Leader and Finance and IT portfolio holder acting as a Senior User.

3.3 Officers have obtained more information concerning a number of options proposed and, following discussion at the Office Accommodation Project Board, reached a view on the proposal that should be carried forward for detailed assessment.

3.4 The current lease for the DCO began on 24th December 2011 and has been signed for five years to 24th December 2016 for an annual sum of £219,000. This level of rent compares well with broadly similar buildings in Letchworth. This new lease was negotiated following the decision not to proceed with the former Grammar School option.

4. PROPOSED OPTION

4.1 The primary option identified through the Office Accommodation Project is to remain at the District Council Offices (DCO), via one of two routes:

- By purchasing the building and carrying out refurbishment works.
- By entering a longer-term lease if the landlord does not wish to sell. Within this option we would then explore whether the landlord would wish to invest in the building (in return for a higher future rent); or whether the Council carries out all the refurbishment works.

4.2 There are a number of reasons for this approach. These are primarily that this represents a lower cost option than a new build project and enquiries regarding alternative suitable existing office accommodation have not brought forward any more favourable options. Alternatively if the building is not purchased, a long-term lease gives greater security of tenure.

4.3 For either course of action at 4.1, the Council needs to be mindful of future size requirements, as the workforce is likely to contract in the near to medium future and the size of building should be appropriate to needs. If there is additional capacity, this could be used for relocating Council functions that are currently housed elsewhere (such as the Print function), sharing facilities with other public bodies, hosting shared service arrangements resulting from a partnership with other public bodies, or sub-letting office space to a commercial organisation.

5. PURCHASE OF DCO OR REMAIN AS LONG LEASEHOLDERS

5.1 Discussions have begun with the leasehold owners of the DCO with respect to purchase of the DCO building. At this stage we have no indication whether this is achievable or the purchase price that may be sought, although it is known that the headlease on the DCO offices is currently held by Standard Securities Limited who purchased it in January 2008.

5.2 Remaining in the DCO would appear to be the lowest cost option available and a new build would be more costly than the likely purchase price of the DCO and subsequent refurbishment. For example, a scheme in Dorchester that includes council offices of a broadly similar size to the DCO, is costed at approximately £10m, as part of a regeneration scheme. Other reported current or proposed schemes for District Council offices quote similar costs.

5.3 An initial estimate of the purchase price necessary to acquire the DCO, should the landlord wish to sell, is provided in the Part 2 report of this Agenda. This estimate is based on the fact that the council is a special purchaser (i.e. already in occupation, which in valuation terms puts a premium on the building value to the council), that the landlord will wish to make a profit from the sale and will be required to pay capital gains tax on any profit from the sale. Therefore permission is being sought in the part 2

report to negotiate up to the specified amount, although the intention will be to achieve a lower price.

- 5.4 If the Council remains in the DCO long term then various elements of refurbishment work will be necessary. A broad initial costing exercise for this has estimated for a wide range of potential works, including environmental improvements, with a corresponding wide spread of potential costs ranging from £227k to £1,975k. In order to arrive at these costs; short, medium and long term lease options were considered at 5, 15 and 25 years. These lengths of lease should be considered as indicative rather than confirmed lengths and so other periods could be negotiated. Broad estimates of potential works, and costs, are provided in Appendix A1-A3. The engagement of external advisors, to contribute to the work of the Council's Property team, will also incur costs (estimated at £20,000), as will the necessity for a full structural survey (estimated at £7,000). Phasing of refurbishment works will need to be carefully planned to allow continued use of the building, albeit with maximum utilisation of homeworking arrangements. The intention would be to negate the need for alternative temporary accommodation (if appropriate accommodation could be found) as this would bring with it a range of IT and telephony requirements that would mean additional cost to the scheme.
- 5.5 It should be noted that a number of the expenditure items included in Appendix A3 (the inescapable and essential works) amount to an estimated £431k and will need to be completed whether this office accommodation proposal proceeds or not, although not necessarily to the timescales included in this report (i.e. 5,15,25 years). This is because they are either required to keep the building weather tight, such as the re-roofing of the two storey wing (lead flashings were stolen from here and a capital bid for £150k has been approved, split over 2013/14 and 2014/15, and a claim submitted to the landlord's building insurers for stolen lead flashings, although no capital bids have yet been submitted for any of the other work listed above) or it is a requirement of the lease that the areas in question are maintained or at least addressed before termination of the lease.
- 5.6 The areas identified as highly desirable in Appendix A1 are those that would deliver the most noticeable improvements in the office environment and would therefore seek to address issues raised in the staff survey. Some funding (approx £11k) from an existing Climate Change grant has already been made available to assist with reviews of utility usage in particular.
- 5.7 The recent office accommodation staff survey included a section to seek the views of staff regarding what improvements they would like to see should the council decide to stay in the DCO longer-term. The results of this section of the survey are summarised in Section 6 and detailed in Appendix B and have been taken into consideration in the proposals contained within this report.
- 5.8 If the scale of refurbishment warrants it, the temporary relocation of staff (on a floor by floor basis) may be achieved by further use of home and flexible working, coupled with more flexible use of the floors and hot desks.
- 5.9 A comparison of the DCO against the "Intelligent Building" scoring matrix (taken from the OGC/ DEGW Design Consultancy publication "Working beyond Walls"), which measures accessibility and adaptability, shows that the positives of the DCO are that it is in a good location, customers know where it is, transport access is convenient and there are some space usage options (especially now that more open-plan has been introduced). However it scores poorly for heating (in Winter), cooling (in Summer), lighting and overall condition (points also raised in the Staff survey). The matrix classes the DCO as "underachieving", with scope for improvement through investment in refurbishment, which supports the proposal made here

- 5.10 The relocation of the IT server room to the DCO, which is now complete, cost £165,000 and so a longer occupation period in the DCO could therefore extract further financial benefit from this move.
- 5.11 Should the in-principle decision be taken to remain longer-term in the DCO, permission is sought to commission a full structural survey at an approximate cost of £7,000. Any major issues or difficulties emerging from this survey, which would require additional investment, will be reported back to Cabinet before any further expenditure is incurred. Provided no major issues are forthcoming, permission is also requested to engage external consultants (at an estimated cost of £20,000) to prepare an outline design and specification for refurbishment works to improve environmental standards, incorporate design flexibility to accommodate potential future needs and improve the building condition. This should include measures to reduce energy costs for the building. These energy costs are currently £49k per year and it is estimated that approximately £7k per year could be saved (at current energy prices). These savings arise primarily from the heating upgrade and replacement glazing (with some contribution from a solar heated hot water system). The outline costs for refurbishment works, to incorporate measures outlined, are estimated to be up to £1.975 million, as indicated in Appendix A1. This would be the approximate proposed cost should either a 25 year (or more) lease be taken on or the building purchased outright.

6. STAFF SURVEY FINDINGS

- 6.1 In terms of desired improvements within the DCO, Appendix B gives a summary of the staff survey responses to this question. This shows that temperature control is the primary concern for the most respondents and the proposed solution to this is largely two-fold: heating upgrade (ref A in Appendix A1) and enhancement of external glazing (ref H). The majority of the other improvements would be captured in the floor by floor refurbishment (ref G), including provision of break out/informal meeting areas and improvements to kitchen facilities where possible.
- 6.2 Storage space issues highlighted should primarily be addressed by a combination of document scanning and provision of off-site storage, both of which are being explored at present. Removing current reliance on off-site storage of documentation will also further reduce longer term revenue costs.

7. CUSTOMER SERVICE IMPLICATIONS

- 7.1 A key consideration of NHDC office accommodation needs is the ease with which visitors/ customers can secure physical access to the council offices or services and the quality of their experience when doing so. A town centre location is therefore beneficial to this aim. Retaining a town centre presence may also bring greater benefits in terms of any future discussions regarding options to share accommodation with other partner agencies.
- 7.2 The current reception area and adjoining back office area at the DCO together form the Customer Service Centre, and were opened in October 2006 to act as a main focal point for customer service across NHDC. This multifunctional team manage face to face, telephone and many email and web customer enquires across a wide variety of services. The aim is to answer 80% of the enquiries they receive at their first point of contact, in order to give the customer a speedy response, which is a key requirement of good customer service, but also allowing a much smaller number of enquiries to escalate to the service specialist staff to address. These tend to be the more detailed and complex enquiries. The current arrangements are generally well liked; however, from a public point of view, there is limited disabled parking on site and no public access to toilet facilities.

- 7.3 Of the approximately 1 million customer transactions undertaken by NHDC every year only about 2% (18,720 of these in 2008/09 - just under 400 visits per week) were conducted in person at NHDC offices, much of the customer contact is via the telephone, post and increasingly via electronic means. There were 20,306 visits recorded in 2009/10. However, it is important to note that not all visits are recorded – the only visits that are consistently recorded are planning desk enquiries, benefits appointments, document collection and drop off – the reality is that the figure of 20,306 can be raised by between 30-40% to take into account all visits to DCO.
- 7.4 Although only relatively small in number there tends to be a number of specific reasons for customers needing to visit NHDC offices in person. These relate to the need for documentation verification mainly relating to Benefits and Housing, which account for roughly half of these visits in person. Other document checks such as visits to meet a benefits assessor; and to seek information relating to a planning applications make up the majority of other reasons for customers visits to our offices The CSC is also the main 'meet and greet' area for all visitors to NHDC.

8. ENVIRONMENTAL/GREEN ISSUES

- 8.1 The Council's Climate Change Strategy - The Council's aspiration to reduce greenhouse gas emissions by at least 26% by 2020 and 80% by 2050 (measured against our 1990 levels) were aligned with the Climate Change Act which came into force in November 2008. The Council is now required to reflect the intentions of the national Memorandum of Understanding made between national and local government in March 2011, those proposals informing councils' carbon reduction programmes to 2015. The new Nottingham Declaration 2 (ND2), showing revised targets and requirements, is now expected to come into place in Spring 2012 following its national consultation from August- September 2011; the intention of the new ND 2 is that councils should do what is 'within their power' to reduce carbon emissions, not that the targets should necessarily incur new areas of work or expenditure. Nottingham Declaration 2 will be considered by the Council for formal adoption as appropriate in due course. NHDC is subject to financial constraints and must ensure it retains a focus on actions that in their implementation make more immediate financial or measurable carbon reduction benefits, such as reducing energy use, reducing its carbon footprint and encouraging environmentally sensitive behaviour in its staff and partners. We will endeavour to monitor energy use and emissions related to those local communities, the councils' own estate and operations, which lie within 'council control and influence' which is the intent of the new Nottingham Declaration.
- 8.2 Meeting the Targets - Detailed proposals for substantial energy efficiency changes are captured in Part L of Building Regulations. These indicate an ambition for all new non-domestic buildings to be carbon neutral by 2019, achieved through phased steps in energy efficiency similar to those already in place for dwellings. It will be underpinned with targets and indicators relating to the new Memorandum of Understanding and Nottingham Declaration 2 which will be determined and announced soon.
- 8.3 Implications of Green Issues on the option proposed can be summarised as follows:-
- a. Meeting CO² gas emission requirements for commercial offices will become increasingly difficult to achieve as energy conservation regulations are strengthened.
 - b. The period within which strengthening of regulations is likely to happen will become shorter and shorter as the overall targets become increasingly difficult to achieve.

- c. The cost of achieving a sustainable option (whether new build or refurbishment) will require the widespread use of new energy saving technologies, which will add to initial costs.
- 8.4 The proposals outlined in this report are informed by the points above and the preparation of an outline design and specification for refurbishment works will be specifically targeted at achieving environmental sustainability and improving the building condition (recommendation 14.4).
- 8.5 In the overall assessment of options, the issue of environmental sustainability should be seen as an aspect of value for money, rather than an uncostable overhead. Proposals can be developed for refurbishment works to achieve environmental sustainability, leading to reductions in running costs and improvements in the building condition. The reuse of buildings also contributes to environmental sustainability in terms of avoiding the construction of new buildings (materials and energy) and in the maintenance and support of existing communities.

9. HUMAN RESOURCES

- 9.1 Staff expectations relating to the new office accommodation need to be managed and staff communication relating to the long-term provision of office accommodation requires careful consideration.
- 9.2 Staff have embraced the changes in office accommodation and working practices necessary to achieve this. The changes are likely to exacerbate the problems around temperature control within the building and refurbishment needs to take place to improve this and create more open space, if the longer term aim is to remain in the DCO.

10. EQUALITIES IMPLICATIONS

- 10.1 The Equality Act 2010 came into force on the 1st October 2010. The Act also created a new Public Sector Equality Duty, which came into force on the 5th April 2011. There is a General duty that public bodies must meet, underpinned by more specific duties which are designed to help meet them.
- 10.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 10.3 In terms of this report, a relevant consideration in the provision of any new office accommodation will be that of the equality of physical access, for both customers and staff, and at such time any refurbishment or alteration does take place, ensuring that the latest statutory access requirements are fulfilled.

11. LEGAL IMPLICATIONS

- 11.1 Cabinet's terms of reference include the responsibility "to manage and maintain the Authority's accommodation".
- 11.2 There are no specific legal implications arising from the further investigation of proposals at this stage, including commencement of negotiations. Legal input will be provided where required in the discussions with Standard Securities regarding purchasing the DCO head lease or securing a longer term lease. Legal Services will be responsible for safeguarding the Council's interests in any subsequent transaction arising out of these discussions.

- 11.3 The instruction of external consultants and surveyors will need to be made in line with the Council's Contract Procurement Rules.
- 11.4 The Council has a right to extend its current lease of the DCO offices under the Landlord & Tenant Act 1954. This requires the Council to serve notice on the landlord prior to expiry of the lease. Commonly this is agreed by negotiation between the parties prior to expiry, but if necessary the Council can enforce its right through the Courts. The law surrounding the power of the Courts to extend the lease is too extensive to be considered in this report.
- 11.5 The approval of Full Council is required for the acquisition of land or buildings where the capital sum or annual rental value exceeds £1 million.

12. FINANCIAL & RISK IMPLICATIONS

- 12.1 The authority needs to make considerable budget savings over the next few years and this will inevitably place extreme pressure on funding availability for schemes such as these. Therefore the conclusion is that a "new build" option is unlikely to be justifiable, as the focus of capital investment will be on customer facing areas.
- 12.2 A refurbishment scheme will also require investment and, if approved, the next phase will involve expert contributions from external advisors to establish the contents of a robust financial bid, including assessment of cost saving measures, along with detail around refurbishment costs and environmental improvements. The engagement of external advisors will also bring forward costs and may be achieved via an existing framework agreement. Therefore the total funding requested at this time in this paper is given below:

Table 1: Initial budget request

Expenditure item (estimates)	£
Full structural survey	7,000
Outline design & specification	20,000
Total	27,000

- 12.3 There is currently a Top Risk relating to Asset Management that is owned by Cabinet. This risk includes the failure to develop a long-term solution for office accommodation for the Council. The consequence of this would be that the authority is left without any resilient office accommodation plan after the expiry of the current lease in December 2016, as we would be relying solely on the provisions of the Landlord & Tenant Act.

13. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS

- 13.1 The Portfolio Holder for Finance & IT is a member of the project board and has been consulted throughout the project. This report will be scrutinised by Overview & Scrutiny Committee prior to submission to Cabinet.

14. RECOMMENDATIONS

- 14.1 That, in the light of the current financial position, the option of purchasing the DCO, or remaining on a longer lease (e.g. 25 years), is taken forward as the primary office accommodation option.

- 14.2 If recommendation 14.1 is agreed, that a full structural survey is commissioned at an approximate cost of £7,000 and any major issues or difficulties emerging, which would require additional investment to that outlined in Appendix A1, are reported back to Cabinet before any expenditure on a design and specification (14.3) is incurred.
- 14.3 Provided no major structural issues are forthcoming, external consultants are engaged to prepare an outline design and specification for refurbishment works to achieve environmental sustainability and improve the building condition, as estimated in Appendix A1. This should include measures to reduce running costs for the building and this consultancy is estimated to cost approximately £20,000.
- 14.4 That a further report is brought to Cabinet to outline the findings of the previous recommendations.
- 14.5 That the option to share facilities with another public body in the North Hertfordshire District is kept under review .

15. REASONS FOR RECOMMENDATIONS

- 15.1 To allow negotiations to proceed with the landlord to secure longer-term accommodation provision for the authority.
- 15.2 To ensure that appropriate investment can be made in the DCO building to implement energy efficiency and improvement measures and to provide good quality accommodation for staff.

16. ALTERNATIVE OPTIONS CONSIDERED

- 16.1 A number of alternative options were considered by the Project Board, as listed in 16.2 below, but were ultimately discounted. As referred to in 1.2 above, the Project Board was authorised by Cabinet on 15th December 2009 to take this project forward, including the development and implementation of a longer-term plan for office accommodation.
- 16.2 Options considered:
- Establish a small office in Letchworth town centre, with the main Council office being located out of the town centre.
 - Redevelopment of the “Triangle” site where the Town Lodge is currently located.
 - Locate the Council in offices in another town centre, or split site as in option three.
 - Share a facility with another public body in the North Hertfordshire District.
 - Relocate to other offices in Letchworth.
- 16.3 Scope for purchasing the freehold title from the Heritage Foundation was also considered, but discounted as LGCHF prefer leasehold arrangements, there would be limited direct benefits to NHDC and the current land lease runs until 2102 anyway

17. CONTACT OFFICER

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18. APPENDICES

Appendix A1 – Summary of Cost Options.

Appendix A2 – Summary of Major work Areas.

Appendix A3 – All Inescapable & Essential costs.

Appendix B - Staff Survey summary - Office Accommodation options.

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