

<b>Report of:</b>	The Mayor: Andy Preston Chief Executive: Tony Parkinson
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<b>Submitted to:</b>	Executive – 20 <sup>th</sup> December 2019
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<b>Subject:</b>	Council – Future Office Accommodation
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**Summary**

<b>Proposed decision(s)</b>
The Executive approves Theakston as the preferred developer and lessor to provide suitable arrangements for the future accommodation of Council staff and services in Centre North East.

Report for:	Key decision:	Confidential:	Is the report urgent?
Decision	Yes, it is over financial threshold	No	No

Contribution to delivery of the 2018-22 Strategic Plan		
Business Imperatives	Physical Regeneration	Social Regeneration
New commercial income from investment in regenerated office stock.	Iconic regenerated office stock, improving the reputation of the town as a regional centre and attracting new investment.	Strengthening the local economy through the creation of opportunities arising from office regeneration.

Ward(s) affected
Central

**What is the purpose of this report?**

1. To present an alternative Civic accommodation option appraisal and to recommend Theakston as the preferred developer and Centre North East as the preferred option in replacement for building one of Centre Square, which is to be made available for commercial letting.

**Why does this report require a decision?**

2. The recommendation of this report is further to a Mayoral announcement on 11<sup>th</sup> July 2019, which sought commercial lets in building one Centre Square and the exploration of alternative options for Council accommodation should these be

secured. A decision is required from Executive members as the proposal is a move away from a previous decision on this issue.

## Report Background

3. On 20<sup>th</sup> February 2018, the previous Mayor's Executive approved the commitment to a 35-year wrap lease for building one of the Centre Square development for the purposes of accommodating Council staff and services as the principal Civic building for Middlesbrough.
4. On 11<sup>th</sup> July 2019, Mayor Preston announced that given significant interest in the building by external businesses, as a result the previous plans for the Council to move into the new building were paused to allow that to be explored and other accommodation options to be considered.
5. Good progress has been made in securing paying tenants and it is now confidently anticipated that by the end of January lettings will be announced on significant proportions of both new buildings at Centre Square (in excess of 45,000 sq. ft.), generating significant unbudgeted rental income, which can be utilised to fund alternative Council accommodation. As a result this report is being brought forward to seek approval to formally amend the direction of travel for the staff civic accommodation.

### Alternative Civic accommodation

6. The Mayoral announcement has resulted in several developers speculatively presenting alternative Civic accommodation lease options for the Council's consideration. Lease decisions do not fall under procurement regulations, but given more than one option is under consideration, it was necessary and appropriate to develop an option appraisal criteria to determine the preferred developer.
7. The option appraisal criteria presented in this report builds on the baseline business case and rationale set out in the *Council Future Accommodation Requirements* approved by the Executive on 19<sup>th</sup> December 2017 and *Centre Square East Office Development – Council Investment and Accommodation* approved by Executive on 20<sup>th</sup> February 2018. The previous Executive directions provided a rationale which discounted the refurbishment of Civic Centre. This rationale has been reaffirmed, as the refurbishment of the existing Civic Centre is fundamentally unviable given its current occupation, which would necessitate temporary transit accommodation in order to facilitate the comprehensive works required to modernise the building and this would be coupled with significant associated upheaval costs and disruption to services.
8. The Council relocating and vacating Civic Centre allows it to become available for comprehensive redevelopment, potentially into residential use to assist in the target to increase town centre living.

## Options appraisal

9. Given several options were being presented, the Council provided prospective developers with a deadline to submit formal proposals to provide the specific accommodation requirements of the Council and to meet the option appraisal criteria tabulated overleaf. Four developers submitted proposals, of which three provided the level of information required to make a recommendation as to the preferred developer.

<b>Strategic Objective</b>	<b>Description</b>
<u>Business Imperatives</u> <b>Cost</b>	Options assessed relative to, and including, building one Centre Square business case on an annualised basis: <ul style="list-style-type: none"> <li>- Annual cost of net internal area (sq. ft.) required to accommodate 650 staff;</li> <li>- Annual cost of surplus net internal area (sq. ft.) relative to rental income</li> <li>- Annual Business Rates liability (multiplier assumption extrapolated from building one Centre Square assumptions); and</li> <li>- Annual Estate Charge liability, where applicable (multiplier assumption extrapolated from building one Centre Square assumptions).</li> </ul>
<u>Business Imperatives</u> <b>CAT A Equivalent Compatibility and Building Warranties</b>	Meeting the requirement (or equivalent) set out in the 'Middlesbrough Council Accommodation Brief Nov 19'
<u>Business Imperatives</u> <b>35-year Institutionally Financeable Wrap Lease</b>	The proposal must be marketable to the Council's institutional financiers.
<u>Business Imperatives</u> <b>Civic Campus 'Neighbourhood' Compatibility</b>	The Council has developed the principles of 'Neighbourhood' working spaces. The proposal must demonstrate the flexibility and compatibility with modern agile working requirements.
<u>Social Regeneration</u> <b>Ground Floor Contact Centre</b>	The proposal must accommodate the Contact Centre, presently based at Middlesbrough House; and it must be publically accessible from the ground floor.
<u>Physical Regeneration</u> <b>Empty Office Refurbishment</b>	Proposals which refurbish existing empty buildings.
<u>Physical Regeneration</u> <b>Desirable 200m Walking Distance to Town Hall &amp; Town Centre; or Acceptable 400m Walking Distance to Town Hall &amp; Town Centre</b>	Accessibility to the Town Hall and retaining demand within the Town Centre are priorities <sup>1</sup> .

<sup>1</sup> Institute of Highways & Transportation (2000) *Guidelines for Providing for Journeys on Foot*, London: Institution of Highways & Transportation.

10. Two of the proposals provided viable refurbishment solutions of presently unoccupied buildings, whilst two were new-build options.
11. At this stage, Theakston has been identified as the preferred bidder, subject to due diligence and negotiation of acceptable Heads of Terms within a 10-week deadline commencing on 20<sup>th</sup> December 2019 and ending on 28<sup>th</sup> February 2020. Upon the denouement of this process, an Executive report will be presented at the earliest opportunity to provide an update on the negotiations. It is envisaged that should this process have proven abortive, it will be recommended the Council should move onto the other viable refurbishment proposal instead.
12. The scores achieved by the bidders at this initial stage were as follows:

<u>Option 1</u> <b>Centre North East (Theakston) Refurbishment</b>	<u>Option 2</u> <b>Refurbishment</b>	<u>Option 3</u> <b>New Build</b>	<u>Option 4</u> <b>New Build</b>
90.8%	83.5%	74.2%	82.5%

13. The recommended option has a floorplate layout and facilities conducive to the implementation of the existing 'neighbourhood' plans. In addition, the surplus accommodation within the recommended option will provide Category 'A' equivalent office space which the Council can lease to inward investors and derive additional rental income.

#### **What decision(s) are being asked for?**

14. The Executive approves Theakston as the preferred developer and Centre North East as the preferred option in replacement for building one of Centre Square.

#### **Why is this being recommended?**

15. Preferred developer status does not confer a lease as this will be subject to the provisions set out in paragraph 11 coupled with confirmation from the Council's institutional financiers as to preferred option acceptability from a financial perspective and its sustainability as a long-term accommodation solution for the Council.
16. Given the additional information requirements, a detailed and complete analysis of the preferred option in respect of legality, feasibility, costs, benefits and risks has not been completed at this stage. This will be forthcoming in a future report at the end of the due diligence period outline in paragraph 11.

#### Consultation and Scrutiny

17. The proposals set out in this report build on those approved by Executive on 20<sup>th</sup> February 2018. Extensive stakeholder consultation was undertaken with Council

staff to develop the 'neighbourhood' plans that were to be implemented within building one at Centre Square. The options contained within this report have been assessed as to their compatibility with the existing 'neighbourhood' plans.

18. This subject of this Executive report has not been examined by the Overview and Scrutiny Board or by a Scrutiny Panel.

### **Other potential decisions and why these have not been recommended**

19. The principle that the Council should relocate to a new office building was established by the previous Executive direction, however the imperative to attract inward investment within the town centre has necessitated the exploration of alternative accommodation proposals.

20. Due to the commercial sensitivities of the respective proposals and the additional diligence required to make a final decision, the determination of a preferred developer has been granted on the face value of the bids submitted.

### **Impact(s) of recommended decision(s)**

21. There are no immediate impacts resultant from selecting a preferred developer and entering into negotiations ending on 28<sup>th</sup> February 2020, aside from the delay to the Council's move from its existing Civic Centre building. The full impact of any successful negotiations will be set out in a subsequent report to the Executive. Should any decision to approve the recommendations of this report be subject to call-in, it will necessitate an extension of the negotiation period.

### **Legal**

22. The legal impact of any successful negotiations will be set out in a subsequent report to the Executive.

### **Financial**

23. The financial impact of any successful negotiations will be set out in a subsequent report to the Executive. This will include an appraisal of the whole life costs of the preferred option. The potential additional revenue benefit derived through letting building one Centre Square, alongside building two, is shown below.

Annual surplus generated by buildings one and two Centre Square <sup>2</sup> :	£	331,349
Less annual retention for reinvestment fund:	£	100,000
<b>Residual subsidy for future Council office accommodation:</b>	<b>£</b>	<b>231,349</b>

<sup>2</sup> Surplus calculated only on net internal areas subject to actual Heads of Terms negotiated with prospective tenants.

24. The annual net financial costs of the preferred option are circa £155k lower than the baseline position, due to the unbudgeted rental surpluses generated by letting building one and using circa two-thirds of this surplus, as highlighted above, to subsidise the headline net position. In addition, the total sq. ft. of high quality Category 'A' equivalent office space owned by the Council in the town centre increases by 162%.

	<u>Baseline</u> <b>1 Centre Square</b>	<u>Preferred Option</u> <b>Centre North East</b>
<b>Annual net position:</b>	-£727.167	-£803,599 <sup>3</sup>
<b>Residual subsidy:</b>	Not applicable	£231,349
<b>Residual net position:</b>	-£727.167	-£572,250
<b>Total Category 'A' office <sup>4</sup></b>	93,896 sq. ft.	245,846 sq. ft.

### ***Policy Framework***

25. The decision will be within the existing policy framework.

### ***Equality and Diversity***

26. An Impact Assessment is not required as the proposals will not have an impact on protected groups. In line with building regulations, the final design of the accommodation will be fully accessible.

### ***Risk***

27. The preferred option presented to the Council provides additional surplus space, for which conservative letting assumptions have been applied. These assumptions will be subject to due diligence by the Council's institutional investors. The proposal will impact positively on a number of risks within the Council's risk register, including:

- i. that the centre square development does not deliver expected financial return, savings or economic benefits;
- ii. town centre property values decline; and
- iii. retail market distress impact on the town centre.

### **Actions to be taken to implement the decision(s)**

28. The Director of Business, Performance and Change and Head of Capital Projects to expedite the actions set out in paragraph 11 and to report back to the Executive at the earliest opportunity further to the conclusion of the process.

### **Appendices**

29. None.

<sup>3</sup> Subject to due diligence by the Council's institutional financiers.

<sup>4</sup> Inclusive of both buildings one and two, Centre Square.

## Background papers

Body	Report title	Date
Executive	Council Future Accommodation Requirements	19 <sup>th</sup> December 2017
Executive	Centre Square East Office Development – Council Investment and Accommodation Part A	20 <sup>th</sup> February 2018
Executive	Centre Square East Office Development – Council Investment and Accommodation Part B NOT FOR PUBLICATION PURSUANT TO PARAGRAPH 3 OF SCHEDULE 12A OF THE LOCAL GOVERNMENT ACT 1972	20 <sup>th</sup> February 2018

**Contact:** Andrew Cain | Economic Growth

**E-mail:** andrew\_cain@middlesbrough.gov.uk