

Report of:	Executive Member for Regeneration: Councillor Ashley Waters Executive Member for Finance and Governance: Councillor Chris Hobson Director of Regeneration and Culture: Richard Horniman Director of Finance: Ian Wright
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Submitted to:	Executive - 16 March 2021
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Subject:	Council Future Office Accommodation - Preferred Option (PART A)
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Summary

Proposed decision(s)
The following is asked of the Executive: a) That the information contained in Part A of the report be noted; and b) That the decision be taken once all the financial or exempt information contained in Part B of the report has been considered.

Report for:	Key decision:	Confidential:	Is the report urgent? ¹
Decision regarding future accommodation	Yes	No	No

Contribution to delivery of the 2021-24 Strategic Plan		
People	Place	Business
The proposals will retain the central workforce within the town centre, alongside the model of staff placed in localities to contribute to the objective that <i>“We will ensure that we place communities at the heart of what we do, continue to deliver value for money and enhance the reputation of Middlesbrough”</i>	The proposals will retain the central workforce within the town centre, and within an unused asset to contribute to the objective that <i>“We will transform our town centre, improving accessibility, revitalising unused assets, developing iconic new spaces and building more town centre homes”</i> .	The proposals will enable the Council to secure high quality accommodation for staff that will enable the most cost effective way of <i>“making sure we work as effectively as possible to support our ambitions for People and Place”</i> .

Ward(s) affected
Central Ward

What is the purpose of this report?

1. That Executive considers the building options that have been explored for the future accommodation of Council Staff and approves:
 - a) a departure from Centre North East (CNE) being considered the preferred option due to changing circumstances;
 - b) Fountains Court being the preferred option for the future accommodation of staff; and,
 - c) the purchase of Fountains Court; and,
 - d) a delegated decision to the Director of Regeneration and Culture, Richard Horniman, and the Director of Finance, Ian Wright, with regard to expending the £200,000 contingency set aside in the investment strategy, should it be required.

Why does this report require a Member decision?

2. An Executive decision on 20th December 2019 approved Theakston as the preferred developer and lessor to provide arrangements for the future accommodation of Council staff in CNE.
3. The report to Executive on 27th October 2020 identified that due to changing circumstances, CNE was no longer the preferred option and that a further options appraisal would be required. This report outlines the accommodation options, seeks confirmation to withdraw from the decision to move to CNE and approval to purchase the preferred option.

Report Background

4. As per previous Executive decisions on the matter, the Council needs to find a more financially viable and sustainable location for staff.
5. Many alternatives have been explored, both before the option of One Centre Square was selected, and subsequently since the decision was taken to let that building to First Source.
6. The Executive report of 20th December 2019 identified CNE as a preferred option. Since then the Council has seen significant change in working practices due to Covid-19, with the majority of staff currently working from home. The Council are also in the process of implementing Locality Working where relevant Council staff will be based in the communities they work in. As a result, fewer desks and therefore less office space is required than previously estimated (please see paragraphs 9-14).
7. The impact of these changes has made the proposed move to CNE more expensive and risky. The reduction to the amount of space the Council would require, and therefore an increased reliance upon the commercial potential of the additional, unused space within CNE brings with it additional risk, making a move to CNE far less attractive.
8. The last report to Executive on 27th October 2020 identified that a further options appraisal would be required, as the Council's needs had evolved, as had the wider property market. This report outlines the Council's updated requirements, and how these now fit against the current available options. The report also identifies a preferred option and the next steps required to facilitate the move.

Council Requirements

9. Much has changed since the original specification for Council accommodation was developed. The Covid-19 pandemic has accelerated trends in home working, changed the way that business is undertaken, and changed the expectations of both staff and external contacts.
10. Previous estimations of numbers for occupying a new headquarters were based on a ratio of 6.3 desks per 10 people, which represented a fairly generous allocation to take account of factors such as annual leave, turnover, business travel and occasional homeworking that would reduce the amount of time people were requiring a desk. The recent pandemic has had a significant impact on the way people work, and will expect to work in the future, which would reduce the number of desks required to around 5 desks per 10 people (or possibly even less). This obviously impacts the amount of space required to accommodate the same number of people in the future.
11. The expectation regarding meeting space in the previous specification was also based on a level of physical meetings that simply will not be required in future, as people have adapted to virtual meetings as the default way of operating.
12. The pandemic has accelerated the cultural shift towards agile working, with staff more used to working from home and better used to planning their working week. Therefore the main purpose of people coming together in an office environment is to collaborate and interact on specific workstreams and projects.
13. As a result of these changing circumstances, the Council's brief for future accommodation has also changed:
 - fewer desks are required and for a shorter period of time
 - less formal meeting space
 - more collaboration and 'drop in' space (this would be an allocation of workspaces that are none-bookable and can be used by staff for short periods e.g. between site visits)
 - we can apply a looser concept of 'neighbourhood' areas (teams would be loosely located in the same area of the building)
14. As a result of the above and as new building options have emerged, additional work has been undertaken to re-evaluate the options available to the Council in central Middlesbrough, and provide the information required to inform a decision on future location.

Option Appraisal

15. For consistency, the option appraisal criteria presented in this report is largely as was set out and approved in the Executive report of 20th December 2019, namely:

Strategic Objective	Description
<i>Business Imperatives</i> Cost	Options assessed relative to, and including, One Centre Square business case on an annualised basis: <ul style="list-style-type: none">• Annual cost of net internal area (sq. ft.) required to accommodate staff;• Annual cost of surplus net internal area (sq. ft.) relative to rental income

	<ul style="list-style-type: none"> • Annual Business Rates liability (multiplier assumption extrapolated from One Centre Square assumptions); and • Annual Estate Charge liability, where applicable (multiplier assumption extrapolated from One Centre Square assumptions).
<i>Business Imperatives</i> CAT A Equivalent Compatibility and Building Warranties	Meeting the requirement (or equivalent) set out in the 'Middlesbrough Council Accommodation Brief Nov 19'.
<i>Business Imperatives</i> 35-year Institutionally Financeable Wrap Lease	The proposal must be marketable to the Council's institutional financiers.
<i>Business Imperatives</i> Civic Campus 'Neighbourhood' Compatibility	The proposal must demonstrate the flexibility and compatibility with modern agile working requirements.
<i>Social Regeneration</i> Ground Floor Contact Centre	Whether the proposal can accommodate the Contact Centre, presently based at Middlesbrough House.
<i>Physical Regeneration</i> Empty Office Refurbishment	Proposals which refurbish existing empty buildings.
<i>Physical Regeneration</i> Desirable 200m Walking Distance to Town Hall & Town Centre; or Acceptable 400m Walking Distance to Town Hall & Town Centre	Accessibility to the Town Hall and retaining demand within the Town Centre are priorities.

16. Since the Executive report of 27th October 2020, First Source have relocated to One Centre Square, resulting in Fountains Court being vacant and for sale. As Fountains Court is close to the existing Council buildings and purchasing it would ensure it is occupied and does not fall into long term vacancy, the opportunity to purchase Fountains Court has been added to the options appraisal.

17. The building options considered in the appraisal (detail available in Part B of the report) are benchmarked against option 1 and are as follows:

- Option 1 – One Centre Square
- Option 2 - CNE
- Option 3 - Wellbeing Towers
- Option 4 - Gurney House
- Option 5 - Fountains Court

18. The previous Executive directions provided a rationale which discounted the refurbishment of the Civic Centre. This rationale has been reaffirmed, as the refurbishment of the existing Civic Centre is unviable given its current condition and the piecemeal way in which it would have to be decanted and refurbished.

19. The Council relocating and vacating the Civic Centre allows it to:

- a) be sold to a developer to refurbish and bring back into use, or,
- b) be demolished and made available as prime town centre development plot.

20. The scores achieved for each option (detail available in Part B of the report) are as follows:

Option 1 – One Centre Square	Option 2 - CNE	Option 3 – Wellbeing Towers	Option 4 – Gurney House	Option 5 – Fountains Court
67.8%	63.8%	70.2%	73.4%	95%

21. Fountains Court is therefore the proposed preferred option. The key benefits of this option are that:

- a) The building has recently been vacated by Firstsource, therefore purchasing and occupying the building would prevent long term vacancy, thus helping to meet our regeneration objectives.
- b) It offers the space and layouts required for staff. At approximately 38,000 sq. ft it can accommodate approximately 335 desks (5 per 10 people) and all previously assumed services, with the exception of the Customer Centre which would remain on the ground floor of Middlesbrough House. Furthermore, the building offers the flexibility to extend with modular space if required in the future.
- c) As the building would be fully occupied by the Council, there is no requirement for the Council to let the vacant space. This in contrast to the CNE option whereby the Council would be taking a commercial risk on vacant space needing to be let.
- d) A recent building survey has confirmed the building is in sound condition and although it requires refurbishment, it would be possible to achieve a very high standard of fit out and an excellent working environment for staff. As it is by far the most economical option to purchase, a good proportion of the investment can be allocated to ensuring a high internal specification.
- e) It is by far the most economically advantageous option. Further due diligence and survey work needs to be undertaken to fully understand the costs, but it is anticipated that the cost of the purchase and fit out of the building can be accommodated within the original fit out budget for One Centre Square. If the detailed due diligence subsequently identifies that this cannot be achieved, a request for an additional allocation of funding would be made prior to work starting. A saving of up to £6.8m would be made when comparing Fountains Court to a generic new build option of the same net internal area.
- f) Moving to Fountains Court would be achieved in a shorter timescale than the other options, particularly any new build options. It is estimated staff could begin to relocate there in autumn 2022.

22. If approved, the next steps would be:

- design work and staff consultation to firm up the requirements;
- tendering and a mobilisation period for the refurbishment and fit out. Any tendering work would take account of the preference to support local businesses and in turn the local economy;
- on site works; and,
- staff could begin to move there in autumn 2022.

What decision(s) are being asked for?

23. The following is asked of the Executive:

- a) That the information contained in Part A of the report be noted; and
- b) That the decision be taken once all the financial or exempt information contained in Part B of the report has been considered.

Why is this being recommended?

24. The last report to Executive on 27th October 2020 identified that a further options appraisal would be required, as the Council's needs had evolved, as had the wider property market. This report outlines the Council's updated requirements, and how these now fit against the current available options.

25. The report identifies Fountains Court as the preferred option as it is the most economically viable option whilst still meeting the Council's requirements and regeneration aspirations. It is recommended that Fountains Court is purchased with the intention of refurbishing the building, ready for staff to relocate.

26. The 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

27. The Council could:

Do nothing:

28. The principle that the Council should relocate to a new office building has been established by previous Executive direction. The Civic Centre would require significant investment to bring it up to an acceptable standard and is not an economically viable option in the long-term.

Continue to proceed with the CNE option:

29. The Council could continue to proceed with leasing and occupying CNE. However, CNE is unlikely to meet the Council's evolving needs and this will result in higher costs and greater risks than necessary.

Pursue another option highlighted in the report:

30. This is not recommended, predominantly because they are not as economically viable, carry greater risks and also prolong the timescales for relocation.

Impact(s) of recommended decision(s)

Legal

31. If Executive approve the preferred option, and following due diligence, the Council will purchase Fountains Court with the intention of relocating some of its staff and services there.

Financial

32. If Executive approve the preferred option, the Council will purchase Fountains Court at a cost identified in Part B of the report and refurbish and fit it out to make it suitable for its staff. It is anticipated that the cost of the fit out, and the purchase of the building can be accommodated within the original fit out budget for One Centre Square. If the detailed due diligence subsequently identifies that this cannot be achieved, a request for an additional allocation of funding would be made prior to work starting. When comparing Fountains Court to a new build option with the same Net Internal Area, there would be a saving of up to £6.8m.

Policy Framework

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

Equality and Diversity

34. 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

35. The relevant risks this decision would influence are cited below, with an explanation as to why they are relevant and how it would affect each risk.

01-052	Substantial areas of the town have high residential voids/low sales values and high population churn, effectively creating market failure resulting in significant social consequences which in turn have implications for Council resources and service delivery. Such an approach is unsustainable and will result in the need for significant market invention at great cost to the Council.	It is stated in the report that the preferred option is now a void property in the town so this will have a positive impact on this risk.
01-005	If poor economic growth occurs, then this will reduce public and private sector investment in the town, including town centre retail, housing development and business.	The report mentions that the Civic Centre is not a viable option anymore and if the land is freed up it could be used for redevelopment purposes.
08-059	If incorrect assumptions are made in the MTFP this will result in a funding gap requiring further savings to be made.	The preferred option is the most economical.
07-042	If LMT do not provide clear instruction of what future accommodation requirements are needed over the next 5 years then this may lead to Asset Management as the Corporate landlord not being able to implement an effective accommodation & investment plan, resulting in inefficient building occupation costs and efficiency savings not being met.	If the decision is made then this will provide a clear steer and have a positive impact on this risk.

O8-037	If a large scale emergency incident or business interruption event prevents Departments from functioning or requires diversion of resources, then ability to function and deliver services would be disrupted.	New ways of working such as home working and not needing as much office space will have a positive impact on this risk, because the Council will be more resilient as services can be delivered from home.
O8-027	If the Council fails to recruit or retain staff to key posts, due to perception of the Council or competition from other employers, then this could result in reduced capacity and knowledge, leading to reduced outcomes for local communities. (The predicted recession and further austerity reduces the risk in some areas but not all). The economic austerity reduces this risk in some areas but not all).	Homeworking opportunities/new office accommodation may help recruit and retain staff, thus having a positive impact on this risk.

Actions to be taken to implement the decision(s)

36. If approved, the Council would proceed with legal documents relating to the purchase of Fountains Court. Following its purchase, it is intended the Council would fit out the building, with staff starting to relocate to there in autumn 2022.

Appendices

37. Appendix 1 – Photographs of the Preferred Option, Fountains Court

Background papers

Body	Report title	Date
Executive	Council – Future Office Accommodation	20 th December 2019
Executive	Council – Future Office Accommodation Update	27 th October 2020

Appendix 1: Photographs of the Preferred Option, Fountains Court

