

Report of:	Executive Member for Regeneration - Councillor Eric Polano Executive Member for Environment and Finance & Governance - Councillor Barrie Cooper Director of Regeneration and Culture - Richard Horniman Director of Finance - Ian Wright
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Submitted to:	Executive - 5 October 2021
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Subject:	Fountain Court Refurbishment and Fit-Out Budget
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Summary

Proposed decision(s)
That Executive considers the building refurbishment and fit-out costs highlighted in the report and approves: a) An additional £4.138m being allocated to the Fountain Court project, giving a total budget of £7m to refurbish and fit-out the building, enabling Council staff to relocate there in 2022.

Report for:	Key decision:	Confidential:	Is the report urgent? ¹
Decision regarding fit-out costings	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 fit-out costs highlighted in the report and approves:
 - a) An additional £4.138m being allocated to the Fountain Court project, giving a total budget of £7m to refurbish and fit-out the building, enabling Council staff to relocate there in 2022.

Why does this report require a Member decision?

2. The report to Executive on 16th March 2021 identified Fountain Court as the preferred option for the future accommodation of Council staff and approved its purchase. Further survey work has been conducted which has confirmed the budget required to fit-out the building, ready for reoccupation.

Report Background

3. 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.
4. It was very evident from employee and manager surveys that staff found working from home extremely beneficial during the pandemic and would like to continue with home working in the future. It was also evident from the surveys that time spent with colleagues in the office was extremely important and that this impacts on collaboration, knowledge sharing, mental health and wellbeing. With this in mind, eligible Council employees have been offered a blended home/office working approach to enable staff to have the benefits of working from home for a significant part of their working time, balanced with face-to-face interaction and collaboration.
5. As a result of these changing circumstances, the Council's brief for future accommodation has changed:
 - fewer desks are required and for a shorter period of time
 - less formal meeting space
 - more collaboration and 'drop in' space
 - we can apply a looser concept of 'neighbourhood' areas
6. Consequently, and as new building options emerged, additional work was undertaken to re-evaluate the building options available to the Council in central Middlesbrough, and provide the information required to inform a decision on future location. An option appraisal identified Fountain Court as the preferred option and the building was subsequently purchased at a cost of £1.84m (inclusive of Stamp Duty Land Tax).
7. The Executive report on 16th March 2021 highlighted that further due diligence and survey work would need to be undertaken to fully understand the costs of Fountain Court. A condition survey by Billinghamurst George and Partners identified that although the building is in generally sound condition, there are a number of expensive defects which require attention in the short-to-medium term such as full window replacement and an upgrade of the Mechanical and Electrical (M&E) system.

8. In summary, the survey and design work has identified that £7m is required to refurbish and fit out the building. This would allow for the works identified above to be addressed and a high quality furniture and fixtures fit out, which would incorporate the following:
- new furniture and fixtures which promote the Council's values and align with the new blended working arrangements
 - raised access floors for services, needed for flexibility to future proof the building
 - replacement and enlarged windows (the current windows are nearing the end of their life)
 - new internal and external doors
 - new floor and ceiling finishes
 - lift refurbishment/replacement
 - new toilets and kitchen areas
 - ICT fibre connections and equipment
 - signage
 - drainage
 - M&E installation
 - consultant's fees
9. In the report to Executive on 16th March 2021, it was anticipated that the cost of the purchase and fit out of Fountain Court could be accommodated within the fit out budget for One Centre Square, which was £5m, however the report acknowledged that detailed due diligence and survey work needed to be undertaken to fully understand the costs.
10. The due diligence and survey work has confirmed that a budget of £7m is required. This includes an 8% contingency of £520,000 which is required to account for the market fluctuations that are current being experienced throughout the U.K.
11. With regard to utilising the £5m budget for One Centre Square, approximately £600,000 has already been spent on survey, consultant works and purchasing the furniture for the demonstration neighbourhood area, which left a budget of £4.438m. The table below breaks down the expenditure for Fountain Court against this budget:

Expenditure Requirement	Cost
Purchase of Fountain Court including Stamp Duty Land Tax	£1,844,500
Refurb and Fit-Out Requirements	
Survey and due diligence work	£16,000
Consultant's fees (design, costs consultancy and advisory role)	£135,200
Overbury pre-contract services agreement (PCSA)	£160,000
Overbury main contract (CAT A and CAT B fit out)	£4,800,000
ICT fit out	£750,000
ICT black fibre connections	£100,000
Furniture and fixtures (not provided in the Overbury contract)	£550,000
Total Other Requirements	£6,511,200
Contingency at 8%	£520,896
Final Total Other Requirements	£7,032,096
Total Cost Of Acquisition and Fit Out	£8,876,596

Current Available Budget	£4,438,000
Additional Budget Required	£4,438,596
Less Mitigation	
Savings from revised estimate for demolition of Civic Centre	-£300,000
Final Additional Budget Required	£4,138,596

12. It should also be noted that the decision to let One Centre Square instead of the Council relocating there, in conjunction with Centre Square 2, is currently producing an income surplus of £250,000.
13. In summary, the total costs for the refurbishment and fit out of Fountain Court are £7m, the available budget from One Centre Square was £4.438m so the additional budget requested, when considering the £300,000 saving from the demolition of the Civic Centre, is £4,138,596.
14. Mitigating this request is the fact that there are significant savings to be made from relocating from the Civic Centre to Fountain Court. Although the difference between the annual running costs between the two buildings is negligible, the Civic Centre currently has a repair and maintenance backlog of £2m. Relocating staff from the Civic Centre to Fountain Court negates the need for this £2m expenditure.
15. Furthermore, 154 Borough Road and Sandringham House will close as a result of staff relocations to Middlesbrough House and Fountain Court respectively. The combined annual running costs of both buildings is £126,000.
16. In addition, the relocation of staff will permit the onward disposal of these buildings, creating additional capital receipts for the Council.

What decision(s) are being asked for?

17. That Executive considers the building refurbishment and fit-out costs highlighted in the report and approves:
- a) An additional £4.138m being allocated to the Fountain Court project, giving a total budget of £7m to refurbish and fit-out the building, enabling Council staff to relocate there in 2022.

Why is this being recommended?

18. The Executive report on 16th March 2021 identified that further due diligence and survey work would need to be undertaken to fully understand the costs of Fountain Court's refurbishment and fit out. It was anticipated that the cost of the purchase and fit out of the building could be accommodated within the fit out budget for One Centre Square, which was £5m. It was stated that if detailed due diligence subsequently identified that the project could not be achieved for £5.2m, a request for an additional allocation of funding would be made prior to work starting. The survey work has highlighted that the fit out cost is £7m and as only £4.438m remains in the One Centre Square budget (when discounting the One Centre Square expenditure), an additional £4.138m is requested. This will ensure

the building is fitted out to a high standard in line with the new blended working arrangements and Council's values, ready for staff to relocate there.

Other potential decisions and why these have not been recommended

19. The Council could:

Do nothing:

- a) The principle that the Council should relocate to Fountain Court has been established by previous Executive direction. The building is not fit for purpose in its current format and is unfurnished, hence a budget is required for its fit out.

Continue to proceed with the remaining budget:

- b) The remaining budget (£4.438) minus the acquisition of Fountain Court (£1.84m) leaves a budget of £2.59m. This budget would be insufficient to fit out the building to a good standard. All that could be achieved within this allocation is a very basic redecoration and furniture fit out. It would not address the defects highlighted in the condition report, such as the windows being at the end of their life. This would postpone money being spent on the building now, but the issues would have to be addressed in the short-to-medium term hence resources would still have to be allocated for this purpose. It would also result in a raised access floor being omitted, which is required for flexibility and future proofing the building.

Impact(s) of recommended decision(s)

Legal

20. If Executive approve the requested budget, the appropriate contracts will be awarded and work will commence on the strip out of Fountain Court. An additional approval to appoint the main contractor, Overbury, for the main CAT A and CAT B fit-out works will be sought in December 2021.

Financial

21. If Executive approve the report, an additional £4.138m would be allocated to the Investment Strategy for the refurbishment and fit-out works of Fountain's Court.

22. The Council will be able to achieve capital receipts through the relocation of staff at, and the subsequent onward disposal of, 154 Borough Road and Sandringham House.

23. At the point of disposal of the properties, total annual revenue savings of £126,000 can be achieved with a significant proportion of this being realised at the point of relocating the staff.

24. The £2m of costs required in respect of the backlog of repairs and maintenance at the Civic Centre will no longer be required.

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 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.

O1-052	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.	Fountain Court is currently a void property in the town so its refurbishment and fit out will 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)

28. If approved, the Council will progress the design work and contracts required to commence the fit out works.

Appendices

29. N/A

Background papers

Body	Report title	Date
Executive	Council Future Office Accommodation – Preferred Option	16 th March 2021