

Taunton Deane Borough Council

Full Council – 10 November 2015

Proposed Relocation of Deane DLO (Direct Labour Organisation) Facilities

Report of the Assistant Director - Asset Development Projects

(This matter is the responsibility of Executive Councillor Mark Edwards)

1. Executive Summary

This report follows the Council decision in January 2015 to sell Priory Way Taunton, subject to vacant possession and planning approval and the subsequent Executive Report of June 2015 identifying short-listed sites and a preferred site including approval to conduct due diligence and negotiate Heads of Terms and commercial negotiations with the preferred vendor (Option 'A' Monkton Heathfield) and reserve sites (Options 'B' West Monkton and 'C' outskirts of Wellington).

The Corporate Scrutiny Committee met on 22 October 2015 and endorsed the recommendations contained in section 18 of this report. A resume of the Committee key observations is outlined in section 2.6.

Following extensive due diligence on the short-listed sites and building / compound brief, specification and area requirements there has been a change in the preferred site for the reasons outlined in this report. Support is requested to move to the next stage of the project covering planning, detailed design, land acquisition and construction of the new facility.

This report seeks:-

- i) Approval for the relocation of the new purpose built facilities to accommodate the Council's Direct Labour Organisation at the preferred site Option 'C' Wellington; and
- ii) Permission and funding to conclude commercial negotiations with the preferred developer in line with this final business case to progress and complete on the land purchase and construction phase at Option 'C' Wellington.

This report constitutes the final decision to progress this site, and sets out clear funding recommendations for Members to consider.

2. Background

2.1 New facility asset

The current DLO operating location is being sold and the Council intend to use proceeds of the sale to invest in land and develop a new asset that is fit for purpose over the next 30 plus years of operation.

The design of the building is both simple and flexible enough to adapt to potential future changes in working practices and to provide a saleable asset to 'institutional' standard B1 business with light industrial, B2 general industrial and B8 storage industrial building with ancillary office, welfare and external storage provision.

2.2 Disposal of existing site

Taunton Deane Borough Council has now agreed terms for the disposal of their existing site at Priory Way, Taunton which has increased the urgent requirement to secure an alternative site for the relocation of the DLO within the Borough and appoint a contractor to build a new purpose built DLO facility to enable a move before a longstop date of 31st December 2016.

2.3 DLO Steering Group

The DLO Steering Group met on 1st October 2015 to consider the site and building due diligence and cost comparison of the initial preferred site and two reserve sites, and after due consideration Members were supportive of the next steps proposed and recommendation made by officers in this report to pursue the Option 'C' site at Wellington and enter a 'freehold' land acquisition with a licence to build under a fixed price developer agreement.

2.4 Site selection criteria

The Council commissioned independent advice to support and expedite an options appraisal to identify a preferred site for the relocation of the DLO operation. The criteria used in the site selection process has been reviewed in light of having produced building and site layouts, which have been screened for planning, site, legal and procurement due diligence as recommended and approved in the previous committee submission and independently assessed.

The criteria considered were Location; Site; Size; Deliverability; Cost / Value for Money; Programme and Wider Regeneration Benefits.

A detailed explanation of the reasoning behind the final preferred selection is attached as confidential Appendix A - DLO relocation site options appraisal and financial assessment.

2.5 Due diligence

The due diligence has enabled officers to assemble this robust business case leading to the following recommendations for the Council to fund the purchase of the preferred site and a budget to secure a contractor or developer to construct new DLO facilities creating a suitable 'transferable' asset.

A decision to support the recommendations in this report will have an added benefit of providing increased certainty to the Priory Way site buyer that the Council have a clear plan and are confident in its ability to meet the vacant possession date of 31st December 2016 set in the conditional contract with the purchaser.

2.6 Corporate Scrutiny Committee met on 22nd October 2015 the key observations of Members were as follows:

- i) Requirement to optimise the energy efficiency of the building fabric and installation of renewable energy systems, with the potential to provide reduced running costs as explained in section 3.7 items iii and vii.
- ii) Development to be fit for purpose and a saleable future asset as outlined in section A3.5 of confidential Appendix A.
- iii) Request for 'model' of future operating costs of Taunton or Wellington scenarios.

Scrutiny committee raised concerns over potential increasing operating costs as a result of moving to Wellington, Officers confirmed that this would be very difficult to model due to the changes in working practices reducing or removing the need for none productive travel. This is not considered to have a material effect due to:

- Mobile and Home Working.
- Changes to work bases.
- The potential use of other storage areas in Taunton reducing the dependency on the depot.
- Additionally the travel needs associated with the work are as variable as the work itself. Whilst there are more housing properties in the Taunton area the travel needs across the borough are dependent on the level of repairs and the order in which they are reported, thus making it difficult to model any impact.

iv) Residual value of buildings / equipment and materials

The question was asked reference the residual value of the site. The site value is incorporated into the disposal, the demolition of the dilapidated buildings and remediation of the current site use have impacted on the site value. Any salvageable equipment or materials will be used at the new facility or sold. The receipt from any surplus saleable items is unknown at present but is considered to be negligible but will be used to off-set the decant and fit-out costs.

3. Evaluation

3.1 Rationale for change in preferred option

Members supported an approach whereby Officers could proceed with an alternative option if the preferred Land purchase and 'Self-build' did not proceed within a reasonable timescale.

As negotiations with the original preferred vendor and two further shortlisted sites progressed it became clear to officers that the business case was unable to support progression Option A and B within reasonable timescales, therefore a backup option was pursued.

During the due diligence undertaken as part of establishing the business case, Officer and specialist independent advisors confirmed that the land purchase with 'self-build' options A and B were unaffordable and undeliverable within the Council's required timescale. Therefore the focus reverted to the option C approach as the preferred development recommendation.

3.2 Evaluation summary

Option 'C' at Wellington has been selected as the preferred solution for the relocation of the DLO in a new purpose built facility based on cost and deliverability. The serviced land price and developer appointment route utilising an established supply chain results in a significantly lower cost than the other options assessed, furthermore it is the only site considered deliverable in the required timescale.

A site options appraisal and financial assessment is included in confidential Appendix 'A' and a Cost Comparison Schedule in confidential Appendix 'B'.

3.3 Site area comparison

The current Priory Way Depot occupies a site area of circa 3.8 acres, through a reduction in need and a rationalisation of vehicle circulation and storage arrangements; the proposed facility is contained within 2.05 acres.

3.4 Building area comparison

The existing Priory Depot comprises 8 single and two-storey buildings and a number of shipping containers, the permanent buildings cover an area of circa 6462m², the proposed building at 1,640.5m² equates to 4,838m² (75%) smaller than the existing buildings.

The proposed purpose designed 'single' building with partial mezzanine floor provides the following accommodation within a building footprint of 1,157m² and an overall net internal area including mezzanine accommodation of 1640.5m²:

- Ground and first floor 'smart' offices with associated wc's, locker storage and kitchenettes / canteen / break-out zones
- Operative locker room with associated wc's and kitchenette / canteen / break-out zones
- Meeting rooms that can be combined (20 occupants)
- Combined electrician, carpenter and painter workshop
- Lawnmower repair workshop and cylinder grinder area
- Horticultural and horticultural equipment stores (mowers etc.)
- Stores and office / counter
- General Store on two levels with internal forklift loading bay

3.5 Compound area comparison

The secure external compound provides:

- Staff car, motorcycle and cycle parking
- Overnight vehicle storage
- Trailer parking
- Mower refuelling
- Vehicle wash facilities
- Bulk storage
- DLO Storage
- Open Spaces storage

3.6 Operational efficiency

i) Site area impact

The new operating location will enable the DLO services to become more efficient whilst retaining the flexibility they require. The new site is significantly smaller than the current and as a result will require the DLO to ensure that only those materials and equipment that are best held and managed from the new depot have a place. Recent technology improvements will support this new way of working.

ii) Location and working practices

Whilst the proposed location in Wellington is a greater distance from many of our Council Housing stock, the new ways of working will mitigate any additional travel time. Back in September 2014 a new software solution was put in place at the DLO that allows for mobile working and employees to be less dependent on the depot. The place where our employees live now becomes more relevant than the location of the depot.

iii) Historic use

This approach will also prevent the depot from becoming the place for everything that otherwise doesn't have a home. Traditionally the depot has, because there was the space to operate in this way, held a vast array of different items for various corporate functions, examples being the remaining paving from the town redevelopment many years ago, sections of the town bridge from the Goodland gardens redevelopment, and pallets of energy efficient light bulbs from various corporate initiatives.

iv) Integrated service

By bringing all the buildings together in this design there will be a more cohesive service, there will be less opportunity for wasted time as the layout is well organised with clear definition of the spaces. The building will also be a more welcoming work environment and be supported by the necessary, working, support functions.

v) Smart office

Following the principles applied to the Deane House accommodation review a 'smart' office approach is to be followed with appropriate furniture including staff lockers, replacement ICT / phone provision and associated kitchenettes and break-out areas.

vi) Reduction in car parking

Parking on the new site is also greatly reduced from the current arrangements and will require a different way of supporting the Council's operational fleet, this will support the new reduced depot size and limit the costs of land purchase.

3.7 Thermal efficiency

The existing office accommodation at Priory Way has a poor energy rating. The target for the new facility is an Energy Performance Certificate (EPC) rating of A or B in line with other buildings at the proposed location. Measures to maximise the thermal efficiency of the new building include the following:

- i) The grouping together of heated spaces within the building and isolating this accommodation from the unheated spaces through the adoption of a thermally broken cavity wall across the warehouse storage area.
- ii) The heat source for the stores (where occupied during the working day) and workshops is specified as gas fuelled low intensity continuous radiant heating systems, chosen as they heat surfaces (i.e. people) rather than heating space. A gas fired flame causes the heat to radiate invisible "black heat" energy. This energy gently warms surfaces and people without heating the air directly. Therefore radiant heaters are highly fuel efficient and are an ideal total heating system or for zone/spot heating.
- iii) It is intended to provide heating and cooling to the offices through a high-efficiency multi-split comfort-cooling air-sourced heat pump system (accepted as a renewable energy source due to its coefficient of performance being greater than 1 and the heat extraction from the air which is constantly being renewed naturally) providing zone control.
- iv) Water capture, treatment and recycling system built into the vehicle wash facility.
- v) Thermally efficient external doors, windows and rooflights optimising energy efficiency and natural daylight.
- vi) All internal and external lights are LED low energy, long life fittings.
- vii) When the initial phase of detailed design is available and the national review of Feed in Tariffs completed, a business case will be undertaken to review the benefits of adding an array of photo-voltaic energy producing panels to the building to off-set running requirements and potentially to provide feed-in tariffs when the building / depot is closed in the evening / overnight and at weekends.

3.8 Health and safety

The purpose designed and built facility has provided the opportunity to work with our H&S manager to design in improved health and safety features such as:

- i) Separate in / out vehicular access and a one-way circulation route.
- ii) Separate pedestrian access to the site and defined pedestrian route around the perimeter of the building.

- iii) Segregated forklift / stores operative racking layout.
- iv) Integrated extract system.
- v) Walk-in road-kill freezer facility.
- vi) Bunded above ground refuelling facility.

3.9 Re-provision of temporary housing accommodation

The re-provision of the Council's emergency accommodation currently located within the Priory Way site boundary is to be dealt with in a separate report.

4. Next Steps – Relocation of DLO Facilities

4.1 The next steps required in pursuing the recommended option for the relocation of the DLO are as follows: It is proposed that Officers are authorised to extend the engagement of Thomas Lister as an independent Property Advisor in order to work together with TDBC's Asset Management Team on the following asset development activities to:

- i) Conclude commercial negotiations with the preferred developer; a land acquisition, design-build and fit-out cost schedule is included in confidential Appendix B;

4.2 Cost breakdown

The initial phases of the Royal Institute of British Architects work stages (0) Strategic Definition, (1) Preparation and Brief and (2) Concept Design are scheduled to be completed within the budget approved by the Executive in June 2015.

This work has involved producing the brief and specification, concept designs (produced by BrightSpace Architects), demand for employment land assessment (produced by Thomas Lister Property consultants), site specific development budget estimates (produced by Peter Gunning and Partners cost consultants).

4.3 Internal and external resources

Internal and external resources are also required to support essential project management and cost control activity. These costs are identified in the business case included in confidential Appendix B.

These resources are essential if the Council is to effectively manage the risks on this project, and ensure that the project is delivered in a timely manner. The work of external advisors needs co-ordinating together with progression of the land acquisition and construction procurement including cost control and legal advice. Internally project management co-ordination is required in order to achieve an effective decant to the new facility.

4.4 Project Management costs and cost control

This business case sets out the internal and external project management costs for the delivery of the scheme (including asset and planning strategy, any further surveys required, tender document preparation and appointment of employer's agent / cost consultant).

4.5 Member liaison and updates

Senior Officers will continue to liaise with relevant parties in terms of finalising costing for the various elements and update the Members Steering Group as the business case develops over the pre-construction period.

5. Growth and Regeneration Benefits

5.1 This project should be considered in a wider context than the sale of a council asset with the provision of a new enhanced asset. The following commentary explores the growth and employment aspects of employment, the retention and extension of local businesses, employment linkages and an enhanced gateway to Taunton town centre.

5.2 Employment

There are benefits to the Council and to Taunton of releasing the priority Way site for employment purposes. The assumption has always been that any onward move for the DLO would be within the Borough, therefore the security of the employment numbers of the DLO remains unaffected by the recommendations in this report, and it is the security of other employment numbers that is to be considered.

5.3 Retention and extension of local businesses

Retention of existing employment and the proposed expansion of these businesses secures and provides a threefold income stream for the area. The first being revenue that the business spends on services and supplies, the second is their customers' spending money with that business and in the local area, and the third being their employees' spending money locally.

5.4 Employment linkages

The earlier decision of this Council, to progress the sale of the existing site to the identified purchaser of the Priory Depot made clear linkages to the impact on local employment.

The purchaser of the Priory Way Depot anticipate taking on a further 50 employees from day one of opening including 34 subcontractors supporting the business. This makes a total of 198 jobs operating from the site.

5.5 Opening of new Priory Way Business

Members are reminded that the Priory Depot purchaser needs to be open and trading from a new site by 1st January 2018 - meaning vacant possession of Priory Way no later than the 31st December 2016. Other bidders had a much tighter timetable, thus increasing the risks to deliverability.

5.6 Enhanced gateway

The current DLO site is in a location which is attractive to high profile occupiers, as proven through the earlier bidding process and as exemplified by the prospective purchaser. Development allied to the prominence of the Toneway and Obridge frontages could encourage wider development of the sites in the immediate vicinity with resultant benefits to this gateway access to Taunton. There is no other opportunity of this nature available in the short/medium term.

5.7 New location

The relocation of the DLO to Wellington reinforces the success of the outlying business parks reflecting their quality, good communications and breadth of use classes. The proposed purpose built facility provides a significant asset for the Council and employment opportunities across the Deane.

6. Asset Management and Development

- 6.1 Option 'C' at Wellington enables a relocation of the DLO facility within required timescale. Whilst there will always be some risk that the new facility will not be available within the required timescale, that risk will be mitigated as far as practical and is considered to be less likely than if options A (Monkton Heathfield) or B (West Monkton) were progressed. The costs associated with a possible resulting temporary move have been included within confidential appendices A and B.

Option 'C' Wellington provides for a modern facility which is fit for purpose, simple and flexible to adapt to potential future changes. The location is one for which there is likely always to be a good demand from potential tenants / purchasers. The facility will also benefit from being much more operationally efficient, thermally efficient and with comparatively low maintenance and other running costs.

The Asset Management Service have been heavily involved in this project from inception, through disposal of the existing site and more recently identifying and working up the current relocation options. As such Asset Management are fully supportive of the recommendations set out in this report.

The recommended location comprises the following zones: Trade / Roadside, Business / Office and Warehouse / Distribution. It is in the latter of these zones that the DLO would be built; there are a number of plots already occupied that have similar depot uses with warehousing, workshop and ancillary office provision.

The 40 acre mixed-use business park has had an extremely high uptake of freehold and leasehold development within an established track record of completing, within comparatively short timescales that will meet the Council's requirements.

7. Financial Comments

7.1 Risks

There are a number of significant inherent risks with the proposal to disaggregate the sale of the DLO site with the purchase or creation of a viable replacement site.

The conditional contractual arrangements associated with the sale of the existing DLO site focuses on the need to deliver a vacant site by the end of 2016. There is a high risk of failure to complete our contractual obligations and secure a sale of an existing asset if we do not vacate on schedule. The Option 'C' proposal to complete a new build within our time constraints affords us an opportunity to relocate directly to new facilities thus avoiding decamping to temporary facilities plus associated costs.

7.2 Cost certainty

Commercial negotiations with owners of the preferred Option 'C' site at Wellington have advanced to the point where a detailed business plan can be created to enable the net cost/benefit to the council be established.

The costs reflected in the accompanying Cost Comparison Schedule (confidential Appendix B) are on the RICS Building Cost Information Service (BCIS) for options A and B which are subject to fluctuation as the design detail develops, whereas Option 'C' is a quotation from the Vendor, who is tasked with matching or improving on the figure.

7.3 Capital expenditure (new facility)

Members have previously confirmed their decision to sell the existing DLO site with the capital receipt from the disposal to be used to fund in part a new DLO operating location.

The shortfall in funding requirements are to be provided by a combination of unallocated capital receipts and Growth funding (funded by the New Homes Bonus).

7.4 Capital expenditure (fit-out)

It should be noted that the additional investment excluding decant costs but including 'smart office' upgrade and equipment will improve efficiency, reduce running costs and future proof the investments. This capital investment is in line with the council's long-term improved operational approach.

7.5 Repairs and maintenance

Members may be aware of the 2014 assessment which indicated unbudgeted repairs and maintenance costs of c£304k required to ensure the current operational viability of existing DLO facilities. These costs did not take account of the need to upgrade existing buildings to meet current building regulations or extend their expected lives, they were merely reactive.

A new purpose build to provide for future DLO services also has the added bonus of efficiency cost savings by reducing running costs of utilities etc. plus taking advantage of sustainability and renewable energy sources.

7.6 Assets

The new build would provide a new updated replacement asset; one fit for purpose and designed to be operated efficiently at reduced cost and low maintenance with an effective 30 year plus lifespan representing good value for money as a future investment.

The additional enhanced value would be recognised by delivering additional employment land and a modern DLO building equipped to accommodate evolving operational requirements and relieve future pressures on services provision.

The funds invested will also support the Council's key corporate priority of Growth and Regeneration delivery and in turn bring economic benefit as detailed in this report.

8. HR

8.1 Unison Change Forum

Throughout the development of the proposals to relocate the DLO, written and verbal reports have been presented to the Unison Change Forum with the most recent update on 6th October 2015.

8.2 Staff briefings

Similarly, staff have been updated on an ad hoc basis at staff briefings.

8.3 Each of the site options is situated within the geographical boundary of the Council and the statement of particulars of all employees' details that employees can be required to work at any office in the Council's service.

8.4 The Council does not currently have a work-based relocation policy and has instead considered each situation on its merits and what is considered reasonable in terms of employment legislation. HR will continue to adopt this approach whilst further consultation is undertaken with both staff and UNISON on the proposals.

9. Legal Comments

9.1 This proposal is subject to completion of the legal / commercial negotiation and completion of a Land Acquisition Contract and simultaneous signing of a Developer Build Agreement to construct the new DLO building under licence.

9.2 The Land Acquisition Contract and Developer Build Agreement are subject to gaining planning permission without unsatisfactory conditions and the expiry of the six week Judicial Review period.

9.3 The legal transactions are being conducted by Shape Mendip, who are advising on the Heads of Terms, Land Acquisition Contract and Developer Build Agreement and Professional Appointments.

9.4 Each party is also responsible for any legal fees associated with completing the acquisition of the preferred site and subsequent building project.

9.5 In view of tight timescales for delivery of the project and in order to proceed directly with essential work on planning and building following a decision, Officers have consulted procurement and legal advisors and are requesting Council to waiver standing orders, in view of special circumstances, to secure the best value Option C. Approval of this approach will enable Officers take forward the specific proposal at Wellington immediately following a decision and mitigate risk of potential delays to completion within projected timescales. In addition to the comments is a more comprehensive overview contained in confidential Appendix C, this is in respect of recommendation 'f' in section 18 of this report.

10. Links to Corporate Aims

10.1 There are links to the growth and regeneration of Taunton by TDBC releasing surplus employment land on the preferred site for other suitable employment uses.

11. Environmental Implications

- 11.1 There are a range of positive environmental implications arising as a result of this proposed new facility including, improved thermal / energy efficiency and vehicle wash grey water recycling.

12. Community Safety Implications

- 12.1 There are no community safety implications as a result of this report.

13. Equalities Impact

- 13.1 At this stage there are no significant equality impacts identified as the scheme design progresses all stakeholders will be consulted. The proposed facility provides significant improvement in terms of safety, access, welfare and operational matters. An Equality Impact Assessment is included as confidential Appendix D.

14. Risks

- 14.1 As with all development projects, managing the combined and often conflicting risks of cost, quality and delivery are critical.
- 14.2 In order to mitigate the risk of delays in attaining an acceptable level of cost certainty the site Option 'C' Land Purchase and Developer Appointment as recommended by Officers and their external advisors gives the earliest available and lowest fixed cost solution.
- 14.3 The due diligence undertaken subsequent to the June Executive has had a significant impact and influence on the recommendation to change the preferred location and procurement method with the objective being to reduce risk levels and reassess value for money and deliverability in order to minimise levels of risk to an acceptable point.

15. Planning and Partnership Implications

- 15.1 The plot identified on the Option 'C' site at Wellington is an extension of an existing business park with outline planning approval
- 15.2 The vendor is following a constructive approach to agreeing the Heads of Terms and defining the specification, design, programming and delivery of the proposed facility.

16. Steering Group Comments

- 16.1 The DLO Relocation Steering group met on the 1st of October, their support for the Option 'C' Wellington location was accompanied by the following observations and associated recommendations:

- 16.2 Accessing the housing distribution across the Deane including time and cost implications were discussed, it was confirmed that this aspect was recognised and could be supported by the new way of working.
- 16.3 It was further agreed that the committee papers should be unrestricted in circulation, however due to commercial confidentiality the vendors and all financial information should be contained within appendices on confidential pink paper.
- 16.4 The Steering Group confirmed their support of pursuing the Option 'C' at Wellington as the new preferred site as presented by officers, verified by independent experts, providing a high quality work environment and best value for money. The new development being achievable within timescales as set out in contract for sale of existing facilities.

17. Background Papers

- 17.1 The most recent relevant report was the Executive Committee Report and minutes 10th June 2015

18. Recommendations

- 18.1 a) Council to approve the purchase of land at Option 'C' site in Wellington and enter into development agreement contracts to deliver a new DLO facility, subject to contract and planning.
- b) Council to approve a non-refundable forward payment to be made by the council to the vendors as outlined in confidential Appendix A. paragraph A5.5 to accelerate planning and design.
- c) Council to authorise Senior Officers to progress and conclude commercial discussions and legal matters.
- d) Council to delegate final approval and sign-off of the purchase by agreement of the Leader, Portfolio Holder of Assets, chief Executive and section 151 officer, who are granted authority to conclude a purchase of land and enter into a development agreement, to deliver a new facility on the Option C site.
- e) Council to approve a total budget for the project as outlined in paragraph A5.1 in confidential Appendix A, to be funded from ring-fenced receipts from the sale of the current depot site, unallocated capital receipts and the remainder derived from the growth fund reserve.
- f) Council to approve the appointment of site owner of Site Option C to carry out the design and build as an exception to the Council's Contract Procedure Rules on the basis of the special circumstances.

g) Council to approve interim borrowing facilities up to the value of the total budget for the project as outlined in paragraph A5.6 in confidential Appendix A.

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