

# Taunton Deane Borough Council

**Executive - 12 September 2012**

## **The Deane House Accommodation Project**

### **Report of the Corporate and Client Manager and Parking and Civil Contingencies Manager**

(This matter is the responsibility of Executive Councillor Stock-Williams)

#### **1. Executive Summary**

The report sets out the background to The Deane House Project and summarises the results of the Feasibility Study and business planning processes.

To move the Police into The Deane House will require significant refurbishment (£2.6m plus) and the partial implementation of modern ways of working through Smart Office. The payback period is in excess of 10-years, based upon the high-level cost estimates available, which will vary in practice.

The report recommends, in view of the cost and longevity of the payback period, and the conclusions derived from the Feasibility Study that no further work is undertaken on this specific option.

#### **2. Background**

2.1 Members were asked to consider the future of The Deane House as part of last year's Budget Review Project. Additionally, the Police contacted us last year to request our considering their co-locating with us in The Deane House following the future closure of the Police Station. This culminated in an options report being taken to the Executive in August 2011 detailing 4 options:

- Rationalise space to free-up 500sm and let to the Police
- Rationalise 2,550sm and let to the Police and other public sector partners
- Relocate Council HQ to County Hall and sell The Deane House
- New build funded from sale or let of The Deane House

2.2 The Executive approved a Feasibility Study in relation to option 1 (500sm), but to be carried out in such away that did not preclude our moving to option 2 (2,550sm).

### **3. Feasibility Study objectives**

- 3.1 Property Services have undertaken a Feasibility Study within the following remit:
- “To identify areas of Deane House that can be considered for letting to Avon & Somerset Police for the management of local operations and to consider areas of ‘shared service’ to provide the public office for Taunton both during and outside normal TDBC office hours.
  - To provide options of space planning for both ASP and TDBC including a concept design of the main reception foyer for a shared reception.
  - Budget costs to include the capital cost of alterations, refurbishment, M&E implications and the necessary IT upgrade.
  - To confirm the anticipated rental and service costs.
- 3.2 It is important to note that, whilst the Feasibility Study was to look at the “general layout of the building and the benefits of a more open plan arrangement”, it was not intended to model the impact of implementing full modern ways of working in a Smart Office environment. It is recognised that implementing full modern ways of working would maximise the use of space and therefore free up more space to let, which may make this more cost effective. However, there would be additional costs associated with the full implementation of modern ways of working and this would be a fundamental change to the way in which we work (i.e. desk sharing/hot-desking, more home/flexible working, VOIP – voice over internet protocol, document management etc).

### **4. Results of the Feasibility Study**

- 4.1 The study has established 4 main options (each of which have variant sub-options). In summary these options are:
- Option 1 – minimal relocation & refurbishment within Deane House releasing sufficient space for Police, but not releasing space for further partnering
  - Option 2 – more extensive relocation & refurbishment within Deane House releasing sufficient space for Police, but not releasing space for further partnering
  - Option 3 – significant relocation (with the ability to enable the implementation of full modern ways of working in a smart office environment in parts of the building) & M&E & ICT refurbishment & which provides the opportunity for further partnering. This only results in parts of the building being fully refurbished and enabled for modern ways of working.
  - Option 4 – option 3, but also including the conversion of the committee suites to offices
- 4.2 The Police have indicated that options 1 & 2 are not acceptable, because these do not include sufficient refurbishment of the premises to reach a standard that is available elsewhere. Option 4 does not work for us,

because it removes the committee suites, so option 3 is the only workable solution, which achieves the objective.

## 5. The Business Case

5.1 We have used the Feasibility Study to inform a more detailed business case, attached as an Appendix. The business case has largely focussed on option 3, as this is the only realistic option for meeting the original objectives i.e. moving the Police into the building. It has NOT examined the feasibility of maximising the use of accommodation through the full implementation of modern ways of working.

5.2 The business case also includes a more detailed analysis of the associated technology costs for enabling modern ways of working, existing known maintenance issues and costs and a high level assessment of the key risks and issues.

5.3 The business case indicates that the project would only be financially viable over a 10-year plus timescale and would involve significant changes to the way in which we currently work i.e. a move to smart office type working. The headline financial figures are set out below:

	<b>10-year scenario</b>	<b>15-year scenario</b>
Costs (construction, plant, ICT, telephony, furniture etc)	£2,629k	£2,801k
Income/cost savings (rental, business rate reduction etc)	(£1,668k)	(£2,611k)
Maintenance offset (money we would have to spend anyway, although not all budgeted for)	(£656k)	(£656)
<b>NET COST</b>	<b>£305k</b>	<b>(£466k)</b>

5.4 These are high-level estimates and will vary either way in practice. Additionally, we have not been able to cost all items e.g. no cost is included for decant space or any change management programme associated with moving to a smart office type solution. The income/cost savings figures assume that we can maximise the use of the building i.e. not just the Police, but other organisations as well.

## 6. Conclusions

6.1 The only acceptable solution which enables us to bring the Police in entails significant change to the building and the way in which we use it. Implementing even elements of modern ways of working through Smart Office is still potentially a big cultural change, the transition to which will require careful and dedicated project management. Are we happy that this is the way in which the Council wants to or should be working in the future?

- 6.2 Financially, based on the options modelled in the Feasibility Study, this project only stacks up over a 10-year plus period (and this is based on incomplete high level costs estimates). Consequently we need to be clear about our key strategic driver(s) – is it bringing the Police in, saving money, remaining in the Deane House?
- 6.3 The gross costs of doing this are getting near to what we now know are the realistic costs of a new build.
- 6.4 Greater space savings and potential income could be generated via the full implementation of modern ways of working in a smart office environment throughout the entire building. There would be additional costs associated with this as it would entail refurbishing the entire building rather than just parts of it as in the Feasibility Study options. Such an exercise was not within the scope of the current remit of the project and has not therefore been undertaken.

## **7 Avon & Somerset Police**

- 7.1 The ASP position throughout initial discussions and the meetings related to the Feasibility Study has been consistent that they are committed to maintaining a core presence in Taunton town centre. Their preferred option was to relocate with the Council, hence the Feasibility Study. There is no reason to believe their commitment to maintaining a presence in the town centre would change if that option did not materialise.

## **8. Finance Comments**

- 8.1 There are no separate finance comments at this stage. The financial issues are covered in the Appendix

## **9. Legal Comments**

- 9.1 There are no legal issues raised in this topic.

## **10. Links to Corporate Aims**

- 10.1 There is no direct link to Corporate Aims, other than the overall aim of achieving economies wherever possible.

## **11. Environmental Implications**

- 11.1 There are no specific environmental implications associated with the recommendation.

## **12. Community Safety Implications**

- 12.1 There are no Community Safety Implications related to this.

## **13. Equalities Impact**

- 13.1 There are no specific Equalities issues related to this.

## **14. Risk Management**

14.1 The risks are addressed above and in the Summary Business Case

## **15. Partnership Implications**

15.1 There are no implications for any existing Partnerships.

## **16. Comments from Scrutiny Committee**

### **16.1 Corporate Scrutiny Committee considered this report on 12 August and resolved**

"We accept the report of Richard Sealy and John Lewis and the conclusions drawn up. We are disappointed that our negotiations with the Avon and Somerset Police were unable to be concluded satisfactorily.

We express our continued support for the concept of shared accommodation with all our municipal partners and do not wish this setback to deter the Council from maintaining its policy in principle. We ask the Executive to endorse the policy of shared accommodation and to work towards early opportunities to come up with other proposals for the future of the Deane House."

## **17. Recommendations**

17.1 We recommend that

- (1) in view of the cost and longevity of the payback period, and the conclusions derived from the Feasibility Study, that no further work is undertaken on the specific issues covered by the Feasibility Study and that this specific project be closed down;
- (2) Members endorse the principle of shared accommodation with a view to reducing the Council's ongoing revenue expenditure; and
- (3) the Officers are asked to look comprehensively at the Council's future accommodation needs in light of the priorities identified in the Corporate Business Plan due to be approved later this year.

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## Part 1 – Options for ASP relocations

## (A) Based on ASP's expressed preference for Areas 4 and 8 of the Deane House

		<i>Total Construction costs</i>	<i>Total Fees (15%)</i>	TDBC proportion	TDBC IT costs	TDBC Furniture etc costs	Total TDBC costs	SW1 suggested income or savings re ASP	TDBC Workstations
Option 1	Minimal relocation within Deane House releasing sufficient space to accommodate. This does not allow for any future partnering.	£345,222	£51,783	£0	£149,417	£0	£149,417	£94,454	249
Option 2	More extensive relocation releasing sufficient space for ASP and remodelling Reception, but with little opportunity for further partnering	£722,578	£108,387	£401,249	£150,018	£7,518	£558,785	£99,134	253
Option 3	Adoption of SMART Office principles in much of Deane House including major M&E works giving opportunity for future partnering, and remodelling	£1,422,114	£213,317	£1,205,715	£494,962	£138,546	£1,839,223	£99,134	323

Option 4	Extension of 3 to include conversion of Committee Suite to offices	£2,155,057	£323,259	£2,048,600	£593,035	£207,819	£2,849,454	£99,134	387
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**B) Based on alternative location for ASP in Areas 3 and 7 of the Deane House**

		<i>Total Construction costs</i>	<i>Total Fees (15%)</i>	TDBC proportion	TDBC IT costs	TDBC Furniture etc costs	Total TDBC costs	SW1 suggested income or savings re ASP	TDBC Workstations
Option 1A	Minimal relocation within Deane House releasing sufficient space to accommodate. This does not allow for any future partnering.	£330,689	£49,603	£0	£149,417	£11,814	£161,231	£88,474	249
Option 2A	More extensive relocation releasing sufficient space for ASP and remodelling Reception, but with little opportunity for further partnering	£699,410	£104,911	£391,318	£149,417	£13,962	£612,071	£88,474	244
Option 3A	Adoption of SMART Office principles in much of Deane House including major M&E works giving opportunity for future partnering, and remodelling	£1,388,793	£208,319	£1,184,109	£452,055	£158,415	£1,794,579	£88,474	295

Option 4A	Extension of 3 to include conversion of Committee Suite to offices	£2,091,746	£313,762	£1,992,504	£570,049	£199,764	£2,762,317	£88,474	372
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## 1 - Assessment

The Current workstation provision in Deane House is 311, with an 'approved' headcount (excl ICT and SWAP) of 253 (as at February 2012)

Options 1 and 2 do not allow for any future partnering or bringing into Deane House any other 'external' TDBC units

The Feasibility Study identifies a number of shortcomings with the existing M&E (heating, lighting etc) installation due to ageing plant and, seemingly, minimal maintenance. Options 1 and 2 do not include for any major overhaul of the plant and utilise existing furniture and equipment, but with some ICT investment. The current M&E situation is unlikely to meet the standards required by ASP or any other potential similar size partner. Neither do these options allow for any real expansion of partner occupation.

Option 3 provides much open plan accommodation on the First Floor and some on the Ground Floor. This involves extensive building works and investment in uprating/replacement heating and electrical installations. It will release office space immediately for offer to other small potential tenants. It also leaves room for further potential on the Ground Floor. It provides for the standard of services likely to be required by any potential tenant. The costs include for new furniture and major ICT refurbishment for TDBC.

Option 4 converts the Committee Suite to office accommodation to show the maximum occupation possible. This is not considered a practical way forward given the extensive use of the Suite and the disruption and costs involved in organising meetings away from Deane House

ASP have indicated that only Options 3, 3A, 4 and 4A will deliver a 'good' working environment and the infrastructure to sustain long term police operations. ASP's expressed preference is to occupy the East Wing (described as areas 4 and 8 in the report, currently occupied by Revenues & Benefits – GF – and Strategy/Client/Building Control - FF)

As the Feasibility Study was directed at delivering ASP occupation of Deane House, this summary business case is presented on the costs to the Council of Option 3. However, the same comments would apply to any potential partner with similar demands.



## **2- Building Works**

To achieve the open plan offices proposed in Option 3 extensive works are required in removing partition walls, replacing suspended ceilings and floor coverings. This involves also major changes to lighting and power installation and distribution.

Moving from the present building layout of small and medium size rooms to open plan will require a change to working practices to achieve the Smart Office type solution. This will require managing in its own right. There will also be costs around decanting staff during the process and dealing with the extensive range of paper documents and records that will have to be either digitised, scanned, rehoused off-site or destroyed. It is not possible to cost these items unless further detailed investigations are undertaken.

## **3 - Mechanical & Electrical Costs**

The Feasibility Study does *“not include for replacing the existing mechanical systems to the whole building or any replacement of near to end of life mechanical plant, hence this is not covered in the costs. The costs only cover adapting existing, new where required, mechanical (incl. controls) elements to facilitate the ASP tenancy the internal remodelling and associated works on a m<sup>2</sup> basis”*

For Option 3 the area is 2119m<sup>2</sup> and the rate is £200/m<sup>2</sup>, giving a figure of c£424k. The Council's portion of that figure is contained in the total construction costs.

(The same rate has been applied for Options 2,2A,3,3A,4 & 4A.)

It is therefore difficult to compare this cost directly with major maintenance items identified in section 5 below.

'Normal' annual maintenance items would continue to be necessary whether or not this work was carried out so there is little potential saving for the Council on these. See Appendix A for Southwest One's latest projection on these.

## **4 - ICT Costs**

These are shown at £495k for option 3 and comprise

- £145k for cabling infrastructure – this infrastructure is the Council’s responsibility and an item that would have to be funded within 1-5 years irrespective of the accommodation proposals
- £100k for a new core network switch – this is being funded by SWO as part of the Asset Infrastructure Investment Plan (AIIP) so does not constitute a true project cost
- £250k for network switches with capability to support the VOIP technology required to deliver the maximum Smart Office benefits

There are other ICT requirements not covered by the Feasibility Study but considered necessary to facilitate Smart Office ways of working and provide an element of future-proofing

- High performance scanners to minimise levels of retained paperwork (important in high volume large document areas such as Development Management)
- Additional data storage to cope with switch to digital documentation
- Additional back up facilities to provide Business Resilience
- Additional capacity in Mobile Working solutions to reduce dependence on ‘desk bound’ operations
- Switching from desktop to laptop technology to enable changes to working practices – including ‘shared’ accommodation (hotdesking)
- High performance printers or MFDs to be shared by workgroups as replacements for present multitude of ‘personal’ devices

These are estimated to cost £400k

## **5 - Telephony Switch Equipment**

The Council’s present Seimens telephone switch does not have VOIP capability and so could not support the ICT technology required to deliver Smart Office benefits.

Southwest One have purchased a new Seimens switch as part of their Smart Office programme for Somerset County Council (SCC pay SWO for the use of this switch). This switch is located at County Hall, but we can access it if required. Rather than spend capital money on a replacement switch for Taunton Deane, the Council should consider renting ‘space’ on the SWO switch if there is sufficient capacity. The costs of doing so cannot be identified at this point, but there *could* be a saving against the costs associated with the replacement of the Council’s present switch.

The estimated costs to replace the present voice switch and provide appropriate replacement of telephone handsets with a directly owned new switch is £300k. It is highly likely that at some point within the next 5 years we will need to replace our existing telephone switch.

## 6 - Current and future maintenance obligations

Southwest One Property Services have identified several issues that will require significant capital investment in the building over the next 5-20 years:

Lift renewal/upgrade (5-10 years)	£50k
Boiler renewal (5 years)	£80k
Replumb heating system to zone	£65k
Committee Suite Air condition replacement (5 years)	<u>£16k</u>
Total	£211

These items are not yet built into any future capital spend assessments or included in the MTFP.

## 7 - Rental income – ASP

SW1 have indicated an income level of c£100k for options 2, 3 and 4, based on £11/£10 psf for Ground and First Floor offices respectively . ASP have challenged this as high, taking into account locality, market rents, building condition, level of ASP capital contribution on 'infrastructure' and furnished/unfurnished condition.

Mark Green has provided evidence from the private sector that market rents are more currently in line with £9 psf than the figures contained in the Feasibility Study. The actual figure would be based on the level of 'fit out' costs the prospective tenant would be required to bear.

This would result in annual rental income of £63k plus service charges of £26k (see Feasibility Study).

## 8 - Potential additional 'vacant space' and income

Option 3 indicates there is potential for 50 or so workstations above those needed by the Council's current occupation of the building It is also possible that the number of TDBC staff requiring permanent workstations in the building might be reduced with changes to working practices, eg working from home, hotdesking etc, or from an overall reduction in the workforce. Some TDBC staff might be better placed in the community rather than Deane House, eg Estate Officers being based geographically within their areas.

The County Council has made an approach with regard to moving some frontline service delivery staff from County Hall where it could be shown this would be beneficial to common customers. Mark Green has also identified other smaller groups who could be interested in relocating to Deane House.

Using Smart Office type standards 50 desks require 320 sm. At £9 psf this would realise a further £31k rental and £12k service charge.

Alternatively this space could be available, where practical, to TDBC teams currently working outside Deane House, with resultant savings in other areas, eg the Priory Depot relocation project.

## 9 - Business Rates position

Deane House business rates are currently £206k. Based on Option 3 this would reduce to £173k with ASP occupying 16% of the building. This represents an annual saving of £33k annually to the Council.

The figure is variable depending on the final occupation configuration.

If space was freed up for a further 50 desks to external partners (7.5% floor space) there would be a further saving of £15,000 pa.

## 10 - The cost of financing

The Option 3 project costs are

Construction, Plant and Fees	£1205k
ICT infrastructure	£495k
Furniture	£139k
<b>Subtotal</b>	<b>£1839k</b>
Telephony equipment	£300k
<b>Total</b>	<b>£2139k</b>

Assuming the Council funded the whole project cost by borrowing at PWLB rates (as at 15 June) the interest would be £190k over 10 years or £362k over 15 years.

(Note: This does not include any MRP that would need to be added to the Council's budget)

## **Part 2 – The Do Nothing scenario**

This scenario envisages the Council continuing to occupy Deane House as it does now with no external partners (for this purpose existing SW1 business units are considered as part of the Council.)

With ongoing pressures on public sector finance it is inevitable that employee numbers will reduce over the next decade, whilst costs will inevitably rise. The Council would then continue to finance under-occupation of the building, thus adding to the costs of providing each remaining service. The business rate liability would continue to fall wholly to the Council.

Maintenance requirements would continue to grow as the building aged and major items such as those identified above would require investment.

The Council currently pays SW1 a fixed fee for utility services rather than the actual costs. This arrangement will end in five years and the costs to the Council will increase significantly.

The Council would also forgo the opportunity to create an annual income stream.

## **Part 3 – The longterm property strategy**

The reports to Scrutiny and Executive in July and August 2011 included two other options –moving in with another public sector partner or moving to a new site. At that time Members decided these should not be investigated, with efforts being directed at continued occupation of Deane House.

The costs of refurbishing the current building to attract partners are not insignificant and the return must be seen over a projected timescale.

The Council's accommodation needs will to some extent be determined by the type of organisation it wishes to be: either continuing to provide services directly to the public as now or to go down the commissioning route.

Moving to share with another public sector partner would involve rental level expenditure equivalent to those the Council would expect in income by bringing external partners into Deane House.

A new building for the Council's operations would cost in the region of £4-4.5m. This could be reduced if the Council built as a joint exercise with another public sector partner. Financing would presumably come from the sale of the existing Deane house site

Further discussion of the wider options is outside the scope of the Feasibility Study and should be pursued separately.

#### Part 4 Financial Summary Table

	10-year scenario	15-year scenario	Notes
	£000	£000	
<b>Costs</b>			
Construction, plant and fees	1,205	1,205	NB. These figures are estimates and may vary either way following any actual procurement exercise.
ICT infrastructure	395	395	£145 for cabling infrastructure replacement and £250k for network switches with VOIP capability
Telephony	300	300	Replacement telephone switch
Furniture	139	139	
Cost of decant, document management, change management etc	??	??	This is the 'change cost' involved in moving to open plan smart office type solution and the resultant change to working practices
Estimate of ICT costs to support SMART Office	400	400	
Borrowing costs	190	362	
<b>Sub total</b>	<b>2,629</b>	<b>2,801</b>	
<b>Income/cost reductions</b>			
Rental income – major	-801	-1,246	

partner*			
Business rate savings – major partner	-330	-495	
Potential rental income from other partner(s)*	-387	-645	Assumes full occupation from day 1
Potential business rate savings from other partner(s)	-150	-225	
<b>Sub total</b>	<b>-1,668</b>	<b>-2,611</b>	
<b>Maintenance cost offset</b>			i.e. amounts we would have had to spend anyway on maintenance
Building maintenance	-211	-211	
ICT maintenance	-145	-145	For cabling infrastructure, which we anticipate having to replace within 1-5 years
Telephone switch	-300	-300	Replacement telephone switch, which we estimate we will have to replace within 5 years
<b>Sub total</b>	<b>-656</b>	<b>-656</b>	
<b>NET COST</b>	<b>305</b>	<b>-466</b>	

All at current costings and no increases in rental over the time periods

\*Includes Year 1 rent free period

## Part 5 – Risks

The key risks associated with the Feasibility Study options are

- The financial cost to the Council of the refurbishment work at a time when there is serious competition for resources
- A change in the circumstances of a key external partner resulting in their no longer able to take up occupation
- Proceeding with the project ties the Council to occupation of Deane House and therefore the surrounding campus for a period not less than 10 years
- The state of the commercial office market being such that expected rental levels are either not achievable or a surfeit of office accommodation exists to mitigate against successful letting
- If the project is moved forward the costs rise significantly following a detailed design process.



Southwest One - Deane House ongoing maintenance programme

Revised 10.05.12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
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DEANE HOUSE						
Roman blinds to PCR						
Paint outside metal work					6,000	
Roof leak(s)/repairs	5,000	3,000	3,000	3,000	3,000	Cont
Window repairs		2,000		2,000		
Duct cleaning	2,000	2,000	2,000	2,000	2,000	Cont
Periodic inspection of electrics					7,500	
Safety film to glazing (mainly internal)	6,000					
PA testing	5,000		5,000		5,000	Cont
Stitch brickwork cracks	7,000	7,000				
Upgrade ground floor fire system	800					
UPS for BMS	300					