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**Report of the Director of Neighbourhoods and Housing Department**

**Executive Board**

**Date: 16<sup>th</sup> August 2006**

**Subject: Office Accommodation – Neighbourhoods and Housing Department**

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**Electoral Wards Affected:**

**Specific Implications For:**

Ethnic minorities

Women

Disabled people

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In

(Details contained in the report)

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**EXECUTIVE SUMMARY**

The report sets out the conclusions of the Option Appraisal undertaken in respect of office accommodation currently situated at South Point, South Accommodation Road which is occupied solely by Neighbourhoods and Housing staff. It focuses on the issues surrounding the imminent construction of IRR7 (Inner Ring Road Phase 7), and its proximity to South Point Offices, and the limitations of the building in respect of its current condition, life expectancy and DDA compliance.

The construction of IRR7 will improve the road infrastructure in Leeds and a recent feasibility study undertaken on South Point, by ADS, has highlighted areas which would need to be addressed to bring the existing accommodation up to a reasonable standard to allow for continued occupancy and to ensure continued service delivery from the site. The report identifies the level of construction work required to continue occupancy as office accommodation, whilst ensuring that service delivery is not impaired and a scheme that would extend the current lifespan of the building by 10 or 25 years.

A full option appraisal has been undertaken to identify the wider issues surrounding the building, including its retention within the Corporate portfolio as office or non-office accommodation, any costs associated to retention or disposal, the impact that the construction of IRR7 will have on the building and the ability for Neighbourhoods and Housing to continue to deliver their services both pre and post construction, alternative solutions to provide office accommodation for the occupiers, the overall costs of any scheme and the value the scheme will provide in respect of the community and regeneration.

An Asset Management Group Meeting was held on 6th June 2006 to discuss the issues at which it was agreed to recommend that Executive Board agree to,

a/ reduce the Corporate Office Accommodation Portfolio with the disposal of South Point the primary use of the land to be determined by market forces through the regeneration of the area.

b/ the relocation and decant of the existing occupiers of South Point into sites already within their Departmental portfolio and to lease a new site for the largest occupiers, Property Management Services at an alternative site as they are unable to relocate within the existing Corporate Portfolio. This will allow for a Net reduction in overall office space delivered.

## **SECTION 1**

### **PURPOSE OF THE REPORT**

1.0 The purpose of the report is to highlight the outcomes of the Option Appraisal and business case for the demolition and disposal of South Point and the subsequent relocation of Neighbourhoods and Housing staff into alternative accommodation within the Departmental Portfolio. It also addresses the issues surrounding the need for suitable, fit for purpose accommodation for the Property Management Service who cannot be accommodated within the current accommodation portfolio and the need to secure an alternative site to ensure service delivery.

1.1 The Option Appraisal included details about the current site and several other options for staff based at South Point – looking at the best use of:

- corporate assets,
- corporate funding and how any extended use of South Point or access to an alternative site would be funded,
- funding efficiencies that could be achieved through revenue savings on a year by year basis,
- the best use of office space, the best use of Corporate assets and their contribution to the regeneration of an area,
- the ability to deliver services from the right locations,
- the Health, Safety and well being of staff
- our ability to provide more flexible services by the use of modern technology and the promotion of flexible, mobile and home working solutions.

## **SECTION 2**

### **BACKGROUND**

2.1 South Point was built some 35 years ago and is constructed over seven floors, six of which are open-plan across the whole width of the floor, with a single storey glazed annexe provided to part of the ground floor. It has excellent parking facilities and is well-located about 1 mile to the south of the city centre on South Accommodation Road. There are currently 190 Neighbourhoods and Housing staff who work directly from the office location – approx 95 are employed by Property Management Service.

2.2 A Survey and Condition Report (February 04) included a Structural Engineer's report and it was noted that 'there had been some movement in the past' and that a visual inspection highlighted potential defects along the front South Western elevation facing South Point Road at the top and right hand side of the building. The building is not DDA compliant, does not meet relevant safety requirements for lone workers due to an inadequate fire system, has numerous ongoing and re-occurring faults, including sewer and general maintenance issues, suffers from

solar overheating, needs a new roof, complete rewiring and heating system and has inadequate ventilation. The cost to make the site fit for purpose is estimated at £2.9M and would take approximately 27 months for completion.

- 2.3 The building was acquired by the Council from its previous owners because of the impact of the proposed construction of IRR7 upon the value of the property. The building is estimated to have a minimum value of £870,000 and the site value is estimated at a minimum of £265,000, following demolition and clearance (estimated to cost some £136,000 subject to further asbestos survey). The cost of demolition may be absorbed as part of the IRR7 scheme as initial discussions with Mouchell Parkman indicate that provision may have already been made within the scheme and would therefore not be directly attributable to the Local Authority.
- 2.4 The planned new road will be in close proximity – 1.8m at its nearest point - to the building, particularly on its south-western elevation and will be a viaduct at this point. It is considered that the over-shadowing effect of the road at that point will mean that, from the fourth floor downwards, this part of the building will not be suitable, without substantial adaptation, for continued occupation for office use. There is also concern that the amount of spray produced from the volume of traffic predicted to use the road would impact on the glazed areas of the upper floors, floors 5 and 6, and could therefore reduce/limit the ability for use as formal office accommodation. If the long term decision to retain the site and renovate was made, work would need to take place in respect of noise reduction and ventilation in respect of the building and internal work would need to take place to realign the 'useable' office space. Staff would be required to relocate from the building during construction/renovation and the works required would include the need to;
- Create open plan office accommodation at the rear side of the building – away from the major road enhancements with no view of the IRR7.
  - Create meeting rooms, mess facilities and primarily storage space on the front elevation of the building facing the IRR7. As this will not be used for 'all day' occupancy this will limit the visual impact of IRR7 on staff working in the building and also make better use of the practical space.
  - Provide noise insulation to all parts of the building and suitable climate control to combat the factors of additional noise and inability to open windows to adequately ventilate the building
  - Under the DDA, compliance work set out as in the original Structural/Condition Report 2004
  - Make better use of the external facilities – car parking etc as the overall number of parking spaces will be reduced
- 2.5 Construction in anticipation of the new road has already commenced in April 2006 with sewer strengthening and a large section of the current car park has been acquired under statutory powers by Yorkshire Water for sewer improvements and revised car parking arrangements have been facilitated. Major works are due to commence around 01/09/06, and will last for up to some three years. The current Project Plan indicates that the phases relating to the pier construction from the River to Hunslet Road and the subsequent decking to these areas will cause the greatest amount of disruption to the occupants of the building and impact /stress on the structure of the building. Work on the demolition and site clearance for this phase has already commenced 24/04/06 with construction of the piers commencing early Autumn 2006. There will be a high degree of noise and disruption during the clearance/pre-construction process and during the construction period. There will also be additional issues that will affect staff surrounding traffic management and traffic flow during the pre-construction and construction phases, final timescales and consultation with the relevant bodies are still to be confirmed to gauge the overall impact in respect of the access/egress to the building.

## SECTION 3

## **THE OPTIONS CONSIDERED – Assessment of the Options**

### ***Site Specification***

- To accommodate 190 staff who provide a City Wide Service
- Ease of access to main road systems in Leeds
- Minimum space requirement of 9,149 feet squared
- Minimum number of 35 car parking spaces
- Open plan office space to allow for optimizing use of space and to allow for adoption of the Working without Walls concept
- Ease of access to public transport network for staff

A number of options to solve the problems identified above have been identified:

#### **3.1 *Option 1*** – Remain in existing site with basic remedial work and essential maintenance only

This is not seen as acceptable due to the extent of the work required and the increasingly unsatisfactory nature of the accommodation, which will be further degraded during the construction period of IRR7. However, this option is included to provide a base case from which to assess other alternatives.

#### **3.2 *Option 2*** - Major Refurbishment of South Point

Stripping out the building and carrying out the reconfiguration and refurbishment of the building, ensuring that DDA compliance for public and staff access, adequate acoustic insulation from noise from the IRR7 (during construction and post construction), major upgrade of lift, roof, kitchen, toilet facilities, windows and to address solar overheating in the building. Improved fire alarm system to be installed to replace inadequate manual system, overhaul of all electrics, IT, heating and provision of mechanical ventilation system. Substantial increase in lighting to accommodate for overshadowing that will be created by IRR7. Relocation of 'pure office space' to South side of building and to relocate lesser used communal spaces to the IRR7 road side of building as IRR7 proximity is 1.8 metres at closest point to building and runs parallel with 4<sup>th</sup> floor of building.

The above would be costly and a decant would be required for staff during the remodeling phase. The remodeled site would be larger than required for the PMS team and would only be viable should other LCC services relocate there. The close proximity of the IRR7 causes concerns for staff as does the prospect of having to move twice. The achievement of substantial revenue efficiencies would be delayed and would not allow recuperation of a capital receipt by the sale of the premise/land.

#### **3.3 *Option 3*** – Demolish and re-build at South Point

Demolishing South Point and constructing a purpose built site would deliver improvements in quality and flexibility of the accommodation and would address issues of proximity to IRR7. However, there would still be a need for substantial capital programme funding, decant during construction, concerns at moving twice and the delays in achieving revenue efficiencies and the potential loss of the capital receipt value. There are likely to be planning restrictions imposed on a new build that could have a direct impact on the number of parking spaces available on site – an element which is crucial as 95% of the staff are essential car users.

#### **3.4 *Option 4*** - Dispose of South Point and purchase alternative accommodation

Two sites were identified that met the client requirements for both geographical location, size of building, access to current and projected client group. The favoured site at this time was in the Colton area and would have allowed the Department to relocate all PMS staff to a suitable

sized site, to extend the use of flexible working and mobile working, to make substantial revenue efficiencies and to also allow for the sale of South Point and the capital receipt values. However, the site has since been taken off the market.

The other site identified at Barrack Road had serious limitations regarding parking and the site was too large for sole occupancy and would only be cost effective should another LCC team share the space and subsequent overheads.

### 3.5 **Option 5** – Dispose of South Point and lease alternative accommodation

Five sites were originally identified for potential lease occupancy, although the two meeting the 'best fit' for client requirements were both based at Colton. One was the Colton Mill site that has since been taken off the market and the other, Temple Point, is a similar but smaller office located on the adjoining business park.

Barrack Road was reviewed but proved inadequate for parking and the site was too large for the PMS Team and would require co-occupancy to prove financially viable.

Gelderd Road - the reduced parking and larger space than required made this less favourable.

View Point Bramley- this is competitively priced accommodation within an office block of 3 units of a similar age to South Point although recently renovated. The space is above a local shopping centre that is currently in decline due to the relocation of Morrison's and, although there is adequate parking, access is via the shopping centre and a back stairwell to the designated area. Work would need to be undertaken to ensure that access/egress to the site is provided safely and security enhancements would need to be made which would also provide additional reassurance to this developing area. The office space has been on the market for nearly 3 years and has yet to be leased but the rates for lease are very favorable and the agent would be prepared to consider a 10 year lease with break clauses at year 3 and year 6 which would allow for decisions to be taken regarding continued occupancy. These break clauses would be tied in to coincide with the Decency deadline of 2010 and the future of the service after that date. Plans to regenerate the area are already been explored with a £1.6M regeneration scheme of the shopping complex to take place in the near future. The scheme would look to enhance the look of the shopping centre, to improve access and facilities within the centre and generate and encourage trade within the area with the addition of further shopping units. The offered office accommodation would provide a suitable site for the service as well as assisting with the regeneration of the area with relocation of 120 staff into the office, their use of goods and services and a commitment shown by LCC to assist with regeneration. Safety and environmental improvements

### 3.6 **Option 6** – Dispose of South Point and new build on alternative sites

LCC has a site at Wykebridge where it would be possible to build either a purpose sized building for sole occupancy or a larger unit which would then be dependant upon co-occupancy to make financially viable. The cost attributable to a new build is high and due to the restricted timescales before IRR7 construction commences, there would still be a need to decant staff from South Point. The length of time to complete a new build would involve the staff being decanted for a substantial period of time and would involve a second move later in the process. There are also concerns that planning restrictions may inhibit the number of parking spaces making the site unacceptable to allow service delivery.

The site could be sold if the N&H preferred option were to be pursued and the capital receipt value realised.

### 3.7 **Option 7 and 8** – Dispose of South Point and refurbish an existing LCC site

There are two potential LCC sites that could be refurbished – both old schools.

Hillside is in Beeston and offers accommodation that is over twice the size of the PMS needs therefore would only be cost effective if co-occupancy could be guaranteed. Parking is very

limited on site and there would be a need for a decant and in essence two moves to enable the team to realise the desired outcome. There would also be a delay for the team in realising revenue savings from existing sites. This site does not become empty until September of this year which would delay the process.

If there are no other interested parties internally for the site then there is scope to sell the property/land and realise the capital receipt value.

Wyther Park in Bramley is in an ideal location although too large for sole occupancy of PMS therefore would be dependant upon finding other occupiers to make it cost effective. Parking should be acceptable on site and there would be scope to realise the capital receipt value of part of the site by selling off the back playground for alternative use.

This site would again involve the service being decanted and then a move to final location and delay any immediate revenue savings from the rationalisation of existing sites.

If there are no other interested parties internally for the site then there is scope to sell the property/land and realise the capital receipt value.

## SECTION 4

### INITIAL OPTION APPRAISAL

The initial options were appraised, including net costs and non-financial factors (the Colton Mill options have been taken out of the table as it is no longer available)

#### 4.1 *Table 1 – Summary of Net Costs for each option*

Option	Net Cost £000	Non-financial weighting
1 – Repair existing site	£2046	Low
2 – Major refurbishment existing site	£4431	Medium
3 – Demolish and rebuild at South Point	£3146	Medium
4a – Dispose and purchase Barrack Road	£2842	Medium
5 – Dispose and lease Gelderd Road	£4060	High
5a – Dispose and lease Barrack Road	£5242	Medium
5b – Dispose and lease View Point	£2117	Medium
5c – Dispose and lease/purchase Temple Point	£4511	High
6a – Dispose and new build small Wykebridge	£3225	Medium
6b – Dispose and new build large Wykebridge	£5448	Medium
7 – Dispose and major refurbishment Hillside	£4135	Medium
8 – Dispose and major refurbishment Wyther Park	£3140	Medium

As a result of the initial option appraisal and the withdrawal of the Colton Mill options, only three of the options are considered worthy of further investigation for comparison to the base option (option 1) and these are options 5,5b and 5c,

## SECTION 5

### DETAILED OPTION APPRAISAL

5.1 A detailed appraisal of the options worthy of further consideration has been carried out. For the financial appraisal the net present value calculation has been done. The discounted rate used in the net present value calculations is a real rate of 3.5% as currently specified in the Treasury Green Book. The detailed calculations are show in Table 2.

#### **Table 2 – Detailed Option Appraisal – Summary of NPV costs**

Option	NPV Cost £000 (25 years)	Non-financial weighting
1 – Repair existing site	-£908	Low
5 – Dispose and lease Gelderd Road	-£3177	High
5b- Dispose and lease View Point	-£1870	Medium
5c – Dispose and lease/purchase Temple Point	-£3410	High

## 5.2 Risk Assessment

A full risk assessment has been undertaken on all the associated risks for each of the preferred options. The risks have been identified and their likelihood and significance assessed against a pre-determined scoring matrix.

The risks have been documented and the scoring and weighting has been used to determine their significance and likelihood. Where a risk is not applicable to a particular option a zero score has been assigned for both likelihood and significance. All the risks and their assessment are indicative and based on either evidence already obtained e.g. Feasibility Study recommendations or HR advice and guidance or the perception of risk determined by the business.

## SECTION 6

### AFFORDABILITY

- 6.1 Each of these options have been fully costed based on data provided by Asset Management and the Development Department on the norms for running costs and estimates of acquisition, lease, refurbishment costs etc. and these are discounted back by Corporate Services to provide the NPV of each option and sub option.
- 6.2 In strict financial terms the cheapest possible option at the present moment is to undertake minor refurbishments to the existing building to maintain occupancy, although this option scores extremely low on the other non- financial factors and has a high risk rating as far as ability to continue to deliver services. This option would not provide accommodation that was 'fit for purpose' and would not assist with raising the visual profile of the area as any works would be of an internal cosmetic nature.

In terms of funding each option would involve a mix of capital and ongoing revenue costs.

### 6.3 Capital

The costs of the capital attributable to relocation would be met via the HRA as the buildings would be occupied by HRA funded staff. Capital charges on the HRA currently stand at significantly in excess of £24 million for 05/06. There is sufficient scope, if necessary to undertake prudential borrowing which, for each £1 million borrowed would add capital charges of approximately £50,000 per annum. Such costs could be readily accommodated within the overall HRA budget of £170 million per annum.

### 6.4 Value for Money Summary

The three remaining viable options have been assessed based on the NPV over 25 years compared with non financial factors to produce a value for money rating figure (all options were subject to a value for money assessment and this information is available on request)

The results are shown in table 5 below.

#### Table 5 – Value for money

SUMMARY NPV'S - INITIAL OPTION APPRAISAL				
Option	Description	25 Year option		
		NPV	Non financial Weighted score	VFM Rating
5b	Dispose and Lease Viewpoint Bramley	£1,870k	265	14.2
5	Dispose and Lease Gelderd Road site	£3,177k	356	11.2
5c	Dispose and Lease Temple Point Colton	£3,410k	374	11.0

6.6 The value for money assessment shows that the Viewpoint site at Bramley offers the best value for money solution.

## SECTION 7

### CONCLUSIONS

7.1 A full Option appraisal (copy available on request) has assisted the Department to conclude that continued occupancy at South Point does not best meet the Departmental needs in respect of service delivery or best placing of staff, and has also assisted with the focusing on opportunities for flexible, mobile and home working and revenue efficiencies that can be achieved as a direct result of a decant from South Point. In addition to this there will be Corporate efficiencies to be achieved by choosing not to remain at South Point and the proposal would be to demolish the existing building and dispose of the land. AMG have also discussed alternative uses for the site at South Point and the consensus of opinion indicates that the demolition of the building and the disposal of the land would offer the best solutions to reduce overall financial commitments in respect of the site, to assist with the regeneration of the area and to provide more suitable office accommodation for those currently housed there.

7.2 Factors influencing the assessment and conclusion include;

- The need for the Department to continue to deliver high level services and to achieve service continuity during and after construction on the Inner Ring Road Phase 7.
- The outcomes of the feasibility study and remedial works required to make South Point a long term home for the Department and other options identified.
- The impact on staff well being and safety once construction on IRR7 commences and during the pre-construction phase.
- The ability for the Department to review its overall office accommodation and the opportunity that has arisen as a direct result of the feasibility study and option appraisal. Work has already been undertaken to reduce overall space occupancy in Merrion House by 20% overall but also be reducing cellular space by 25%, and the proposals would allow for a reduction in the overall space utilised by the Department at South Point and better use of sites used to facilitate decants.
- A full option appraisal outlining a best preferred option to meet the Departmental needs and to meet Corporate pressures. The preferred option would be to re-locate all staff away from South Point and to demolish the site and sell the land.
- The opportunity to further embrace mobile, home and flexible working options to achieve the best use of accommodation and to generate efficiencies.
- The ability to achieve real efficiencies in respect of revenue hits to the Department – these will be year on year.
- The ability to dispose of an asset which is no longer fit for purpose, to reduce any further financial outlay in respect of the property and to free up land within the



regeneration area which can be utilized in line with market forces for the area.

## **SECTION 8**

### **RISKS**

- 8.1 The risks stem primarily from the need to achieve a suitable outcome as soon as possible, based on the fact that occupancy within the current site is already becoming very difficult for staff and once the full construction works for IRR7 commences the ability to deliver high profile services could be seriously impaired.
- 8.2 Further risks have already been highlighted in respect of the ability to commence negotiations for heads of terms. The Department has already missed the opportunity to pursue the Colton Mill option due to the timescales involved in this process and there is a danger that staff could not be relocated in time to avoid the road construction works. Initial steps are therefore being taken to negotiate heads of terms for both the Viewpoint option as the preferred option and the Temple Point option as a back up option.
- 8.2.1 To negotiate a lease for approx 9,530 square feet of open plan space over the first and second floor of the building at a cost of £7.50 per square foot per annum (exclusive of business rates, service charge, insurance and VAT) but inclusive of parking. Service charge is expected to be levied at 50p per foot squared per annum. The space will be greatly reduced the that already occupied by the service in South Point and a reduction in space will be achieved by applying flexible and mobile working initiatives as well as reducing the amount of cellular office space and adopting the principles of Working without Walls within an open plan environment. This will be a reduction of approx 3,387 square feet (26%) in overall space. Action is required at an early stage in order to minimize the risks and speed up the relocation timescales (continuation of negotiations would depend on the Executive Board decision)

## **SECTION 9**

### **RECOMMENDATIONS**

The Director, supported by Corporate Asset Management Group, proposes that Executive Board agree to the following;

- The disposal of the site at South Point
- The decant of staff from South Point into existing sites within the Neighbourhoods and Housing Departmental portfolio (Housing Services, Environmental Health and Community Safety), involving the overall rationalization of Neighbourhoods and Housing Departmental office accommodation portfolio and the best placing of staff to deliver services to their client groups
- The lease of a new site which will allow for all of the current Property Management Service to occupy one 'fit for purpose' site – the site identified for potential relocation being at Viewpoint in Bramley.
- To note the early negotiations for heads of terms in respect of View Point at Bramley and, as a fall back position, Temple Point at Colton