

Meeting not open to the public

**Notes of meeting the Office Accommodation Executive Group
held on
Tuesday 14 January 2014**

Present:

Councillors: Paul Diviani, David Cox, Ray Bloxham, Cllr A Moulding

Officers: Richard Cohen, Steve Pratten, Simon Davey, Karen Jenkins, Rachel Pocock,

		Action
1.	Apologies: Mark Williams	
	<p>Terms of Reference: at the Cabinet meeting in July 2013 it agreed to the setting up of the Executive Group</p> <p>"Following the Cabinet meeting held on 17 July it was agreed to establish an Office Relocation Executive Group comprising selected Cabinet members, senior officers and the Project Manager to oversee project progress. Membership of the Group agreed and meetings to be held monthly (ideally before Cabinet/Cabinet Briefings). The Group will project manage the day to day decisions but major decisions will need to go through Cabinet. With those members of Cabinet on the group there will be the opportunity to use delegated powers/portfolio holders powers when urgent decisions need to be made possible between Cabinet meetings. All key milestones will go through Cabinet and then on the Council to be ratified.</p> <p>Primary decisions to be made by the Group are:</p> <ul style="list-style-type: none">• Day to day issues• Design issues on site and the detailed part of the project• Price/programme issues and any variations made to those.• Group to take control of the project.• Audit trail to be followed"	
2.	Minutes of previous meeting: agreed.	
3.	Overview of Options: SP provided a Briefing Note for the meeting giving a financial appraisal of the project costs etc to-date.	
4.	Heathpark: Chartered Surveyors, Thomas Lister, have now submitted their final report on the disposal of the Heathpark site. Following the Tender exercise 8 bids were submitted – from this 4	

parties were interviewed with 2 bids being finally chosen. These were Terrace Hill Developments Ltd and Frontier Estates Limited.

- Terrace Hill representing ASDA who have submitted a bid of £5m for a 37,000sqft store with a 4 pump petrol station
- Frontier Estates representing Morrisons who have submitted a bid of £4.8m (it would offer £5.6m if the County Depot could also be included - no response so far from DCC despite approaches) – Bid is for a 45,000sqft store with no petrol station but if acquired the County Depot site then a petrol station would be included.
- Both parties have agreed to fund a Finance Monitoring Officer throughout the project at no cost to EDDC.
- EDDC would wish to impose a contractual commitment for comparable goods of 10% - ASDA would like this increased to 15%. This is a matter that the applicant would need to address with the Planning Authority.
- Presuming that a planning approval could be obtained
- If negotiations progress according to projected timetable with the sale of Heathpark then EDDC would need to give vacant possession by 11 May 2015. Delay could result in risk of charges. However, if there is delay to the developer making payment for the site or being able to begin works due to planning outcome or JR then the situation changes including a timeline of site release, EDBC closure and other actions by EDDC..
- This is also the issue of a possible repayment of government grant of £200,000 provided for the construction of the existing BC although replacement of the facility may obviate the need for such payment. A sum has been factored into project cost. **Action:** Nigel Harrison to pursue issues relating to EDBC re-provision and alternative site availability. Also investigate JV opportunities, temp provision if required and requirement of/from current EDBC licensees..
- **Agreed:** Estates team to look for other options of suitable sites in Honiton.
- **Legal Fees** – a suggestion of £15,000 for the EDBC and £50,000 for the Offices has been recommended. Rachel Pocock said the Development Agreement may now have to be undertaken by an outside party due to the Solicitor Post now vacant with advertising underway for a replacement. If external resource is needed then more appropriate figure would be in the region of £100,000. RC commented that there was a 20% contingency allowance built into the design and construction costs that would cover this potential further liability.
- Risks to Heathpark are if no planning permission granted where does Development go from there? If the site is not sold for food retail then the price will be drastically reduced. If no site is found in Honiton for EDBC then risk of losing existing tenants who do not want to move out of the area.
- **Agreed** Agree to recommend Terrace Hill offer to Cabinet but any decision about the EDBC needs to be looked at in detail before decision as to where the new HQ are.

- Group were happy with the options and figures detailed by SP.

Councillor Andrew Moulding left the meeting.

5. **HQ Site Options:** Briefing note provided explaining all the options including and excluding the EDBC. Also shows how much will be needed to be borrowed until Capital Receipts are projected to be received and also factoring in up to 24 months delay for JR, call in or similar timing issues for the programme. SP went through the costs sheet explaining how the costs added up. Inflation for annual running costs over a twenty year period include a 2% increase per annum for business rates and an increase of 10% per annum for energy costs had also been included.

The Group looked at the Scoring Matrix as a whole and recommended adding in a criterion that reflected the results of the Staff Engagement Survey. The matrix had already seen the addition of comments Members made regarding 'presence following the recent tour of sites. .

The exercise looked in detail at both the 5 options for relocation and revisited options for redeveloping offices on the Knowle and a 'do nothing' option.

The Group then undertook the scoring exercise to enable them to come to a decision on which site(s) needed further investigation.

From the Scoring exercise the two options that scored highest were Skypark and Clyst House and would be recommended to Cabinet.

Having decided to propose to Cabinet to sell EDDC's Heathpark site, the Group also wanted a clear steer on the continued requirement for EDBC being replaced on a site in Honiton.

Agreed: NH/TD to find out the details, plans and views of the existing tenants to inform a future decision.

Having completed the scoring exercise the meeting finished at 7.10pm and agreed to reconvene the following day at 12noon to finalise discussions and decisions..

Meeting reconvened on 15 January 2014.

Apologies: Cllr A Moulding
In addition: Mark Williams, CEO

RC explained that following the meeting held the day before the Group had now come up with a completed score sheet which had shown the 2 highest scoring options as Skypark and Clyst House. The decision was to place both before Cabinet for a debate and recommendation of a preference to Full Council. It had also been agreed to put the Heathpark site on the market. These are two quite different options that Cabinet should be given an opportunity to explore.

The question was asked on the distinction between choosing between Skypark and Cranbrook bearing in mind that their scores

were very close. The following points were discussed:

- As an Authority we had dealt with Cranbrook Consortium a lot but not so much with St Modwen.
- Skypark had confirmed a Guaranteed Maximum Price to work with whereas Cranbrook had only given a target cost
- A town centre office had a feeling of congestion to it although this could be argued that the car park would bring in income at weekends
- Sharing space with the Library/Town Council could have negatives if a move at a later date ever arose.
- If an office was to be built in the High street then this could possibly detract from the high street itself as a centre of leisure and retail rather than public administration.
- Noise issues/pollution at Skypark –Need to check whether when planning permission was issued whether a noise assessment was required or requested **Action** – SP to check with St Modwen and DM colleagues
- Noise from engine testing at weekend – need to speak to Planning and get a point of view from them.
Do nothing remains as an option and has been considered alongside all the other options. It is not recommended by the Executive Group but may come up in Cabinet and/or Full Council discussion.

- The Exec Group is recommending a choice between two options:

1. Clyst House
2. Skypark

Agreed: take 2 options to Cabinet i.e. Skypark and Clyst House. Cabinet to be given the opportunity to make a recommendation of one to the following Full Council.

- If a move to Skypark or Clyst House then need to make clear that there will be provision in other towns. It is about improving what is already in existence.
- Clyst house – meets financial criteria but existing size is a divergence from previous plans for smaller new build.
- Skypark – There will be a deficit when considered against lower value options of Knowle capital receipt which will need to be funded via borrowing for example.
- This has been a complex and detailed process. Cabinet needs to be clear on its decision making so that messages are clear to the wider community of East Devon.
- Report needs to be balanced to give Members the space and information to choose.
- There are multiple risks to be considered and managed as well as benefits and opportunities to be grasped. Risks such as JR, call-in, Town and Village Green and failure to secure capital receipt need to be factored in also.

Agreed: Group to email Richard with any comments that they feel need to be included in the report

EDDC OFFICE ACCOMODATION PROJECT

SUMMARY OF PROJECT COSTS INCLUDING ANNUAL RUNNING COSTS OVER A TWENTY YEAR PERIOD RECONCILED WITH POTENTIAL CAPITAL RECEIPTS FOR IDENTIFIED EDDC ASSETS FOR PREFERRED THE SITE OPTIONS

LOCATION OPTIONS	KNOWLE - 80 DWELLINGS VALUATION OPTION					KNOWLE - 83 DWELLINGS VALUATION OPTION				
	Total of Initial Costs, including all relevant site purchase, SDLT, building purchase, construction / refurbishment costs / Client PR Cost, Development and Leasing Term Funding	Knowle Options Only - Less most appropriate asset valuation for Knowle & Macclesfield	Less most appropriate asset valuation based on 80 dwellings at Knowle	Balance	Balance of Anticipated Annual Running Costs over a 20 year period based generally upon inflation @ 2.6% per annum, with energy @ 18.8% per annum	OVERALL ANTICIPATED FINANCIAL NETT EFFECT AS COMPARED TO EXISTING KNOWLE OFFICES OVER A TWENTY YEAR PERIOD	Total of Initial Costs, including all relevant site purchase, SDLT, building purchase, construction / refurbishment costs / Client PR Cost, Development and Leasing Term Funding	Less most appropriate asset valuation based on 83 dwellings at Knowle	Balance	Balance of Anticipated Annual Running Costs over a 20 year period based generally upon inflation @ 2.6% per annum, with energy @ 18.8% per annum
1 KNOWLE										
a Remaining at current location with Essential Works Only being undertaken	£2,248,846	£0		-£2,248,846	£1,887,743	-£361,103				
b Option 1 Knowle Hotel Building - 3.352 m2 refurbished with the remaining balance of the former Hotel being sold and the Office Extensions demolished - BREEM Very Good	£18,836,889	£9,988,838		-£8,848,051	£3,238,883	-£5,609,176				
c Option 2 Knowle Hotel and Extensions demolished New purpose built office and car park built on site BREEM Excellent	£18,478,344	£8,882,888		-£9,595,456	£3,838,848	-£5,756,608				
d Option 3 New purpose built office built on upper car park BREEM Excellent	£18,888,441	£8,871,888		-£10,016,553	£3,838,848	-£6,177,705				
2 CLYST HOUSE, WHINLADE PARK										
a Relocated EDDC Office Only with existing EDDC being relocated elsewhere	£14,824,411		£12,888,791	-£1,935,620	£2,411,164	£2,196,834	£14,824,411	£18,188,888	£1,141,879	£3,411,164
b Relocated EDDC Office incorporating EDDC	£11,491,881		£12,888,791	£1,396,910	£3,818,133	£5,132,043	£11,491,881	£18,188,888	£3,874,884	£7,489,337
3 CRANBROOK TOWN CENTRE										
a BREEM Very Good										
a1 Relocated EDDC Office Only with existing EDDC being relocated elsewhere	£14,292,887		£12,888,791	-£1,404,096	£1,881,784	£377,887	14292887.00	£18,188,888	£383,888	£1,881,784
a2 Relocated EDDC Office incorporating EDDC	£12,484,888		£12,888,791	£393,903	£568,178	£83,286	12484888.00	£18,188,888	£1,701,148	£568,178
b BREEM Excellent										
b1 Relocated EDDC Office Only with existing EDDC being relocated elsewhere	£18,887,436		£12,888,791	-£6,000,000	£1,822,788	-£4,177,212	18887436.11	£18,188,888	-£731,300	£1,822,788
b2 Relocated EDDC Office incorporating EDDC	£18,188,881		£12,888,791	-£5,300,090	£818,133	-£4,481,957	18188881.38	£18,188,888	£88,234	£818,133
c Hillier Land "Key Turn" proposals, with existing EDDC being relocated elsewhere	£14,302,387		£12,888,791	-£1,413,596	£1,171,243	-£242,353	14302387.00	£18,188,888	£383,728	£1,171,243
4 FORMER BTA DEPOT, HEATHPARK, HONITON										
a BREEM Very Good										
a1 Relocated EDDC Office Only with existing EDDC remaining in its current location	£12,484,884		£2,888,791	-£9,596,093	£2,883,383	-£6,712,710	12484884.2	£18,188,888	-£2,088,479	£2,883,383
b BREEM Excellent										
b1 Relocated EDDC Office Only with existing EDDC remaining in its current location	£14,888,881		£8,888,791	-£6,000,090	£2,881,884	-£3,116,907	14888881.37	£18,188,888	-£3,702,004	£2,881,884
5 LAND TO THE SOUTH OF DEVONSHIRE RD, HEATHPARK,										
Full area of the available site - 3.1 acres										
a BREEM Very Good										
a1 Relocated EDDC Office incorporating EDDC	£13,817,122		£12,888,791	-£928,331	£2,188,377	£386,848	13817122.2	£18,188,888	£1,248,983	£2,188,377
b BREEM Excellent										
b1 Relocated EDDC Office incorporating EDDC	£18,883,838		£12,888,791	-£6,000,047	£2,888,334	-£3,111,713	18883838.37	£18,188,888	-£491,554	£2,888,334
Reduced area of the available site - 1.88 acres										
c BREEM Very Good										
c1 Relocated EDDC Office incorporating EDDC	£13,442,747		£12,888,791	-£553,956	£2,188,788	£1,264,034	13442747.75	£18,188,888	£1,723,338	£2,188,788
d BREEM Excellent										
d1 Relocated EDDC Office incorporating EDDC	£18,178,813		£12,888,791	-£5,290,022	£2,118,888	-£3,171,125	18178813.82	£18,188,888	-£700,000	£2,118,888
6 SKYPARK,										
a1 B1 Medium "Key Turn" proposal including land for 100 car park spaces B1 Medium "Key Turn" proposal including land for 200 car park spaces	£14,238,214		£12,888,791	-£1,349,423	£1,178,834	-£2,060,589	14238214.12	£18,188,888	£348,771	£1,178,834
a2	£14,788,816		£12,888,791	-£1,900,025	£1,838,748	-£71,268	14788816.12	£18,188,888	£618,860	£1,838,748

NOTE:

Balance - Red - Negative additional monies required to fund project including finance costs, Black - Positive monies available over and above project costs including allowances for financing]

Used in data

EAST DEVON DISTRICT COUNCIL

OFFICE ACCOMMODATION PROJECT – APPRAISAL STAGE

ANTICIPATED PROJECT COSTS FOR THE IDENTIFIED POTENTIAL SITE OPTIONS

SUMMARY BRIEFING NOTES

1.0 INTRODUCTION

- 1.1 This Briefing Note provides a commentary on the financial appraisal of the Project Costs, identifying the constituent parts, assumptions made and other matters of clarification.
- 1.2 The costs identified should be considered to be reasonable estimates based upon current knowledge and reasoned judgements. The current designs for the new office are only at spatial analysis stage, and when developed into more detailed drawings, it will enable greater certainty of programme, construction costs and costs in use to be estimated.
- 1.3 Similarly, for the refurbishment options, Knowle Hotel and Clyst House, whilst estimates have been incorporated based upon visual inspections, further intrusive surveys will be required in order to allow the design to be refined and thereby the programme, refurbishment and annual running costs to be developed
- 1.4 Where applicable each Option has been considered as either BREEAM Very Good or BREEAM Excellent. In addition, the incorporation of the East Devon Business Centre either into the new EDDC Office or, where relevant, relocated away from its current location in Heathpark has been considered.
- 1.5 Each of the five relocation options have been financially reviewed, analysed and evaluated in relative detail. It is anticipated that the criteria identified will allow each option to be considered on a like for like basis with the other options, thereby permitting a simple comparison within the summary document.
- 1.6 Detailed site valuations based upon the RICS Red Book criteria have been carried out on the identified EDDC land assets. These valuations have then been collated into differing combinations, with what is considered to be the most appropriate being identified (based upon

the maximum value being available) to compensate the Council for the initial cost of the Project.

- 1.7 Both Initial costs and first year Annual Running costs have been estimated to the Quarter 2 2015.

2.0 PARTICULARS OF THE PROJECT COSTS

- 2.1 The Project costs have been identified under three main headings – Initial costs, anticipated Annual Running costs and Funding / Finance costs.

2.2 Initial Costs

- 2.2.1 Initial costs include the following, depending on the relevant options being considered;

- Land / Site / Building Purchase
- Stamp Duty Land Tax
- Construction / Refurbishment Costs
- Turnkey Construction Costs
- East Devon District Council (EDDC), Client, New office costs, including;
 - Project costs to date,
 - furniture, fixtures and fittings,
 - Information and communications technology (ICT),
 - Cost for the provision of an Internal PM
 - Provision of IT equipment for the Work Smart initiative
 - Two year compensation allowance for staff transport costs, site specific
 - Nominal allowance for legal expenses (assumed most work will be carried out in house)
 - Storage containers for remaining archived documentation.
- East Devon Business Centre (EDBC) "Client Costs", similar to the above.
- EDDC legacy costs to Sidmouth Town Council,
- Allowance for statutory costs - S 106 / 278.
- Replacement of EDBC – if not included with the relevant Option
- Replacement of existing Depot facilities at Knowle and Manstone

2.2.2 With particular reference to the construction / refurbishment costs each option includes an allowance of 15% for Preliminaries, 15% for Design and associated Fees and 20% contingency.

2.3 Anticipated Annual Running costs

2.3.1 Anticipated annual running costs include the following elements;

- Estimated Business rates, including adjustment of the Levy Payment,
- Planned Maintenance
- Reactive Maintenance
- Utilities, including;
 - Electricity
 - Gas / Energy
 - Water / Sewerage charges
- Buildings Insurance
- Contents Insurance
- Employee Costs (Caretaking / cleaning)
- Grounds maintenance / Estate servicing costs
- Property Services costs
- Other running costs.

2.3.2 Inflation associated with the anticipated Annual Running costs has been considered over a twenty year period. Generally inflation has been allowed @ 2.0% per annum – which reflects the Bank of England's prediction for CPI. Inflation for electricity and gas / energy has been included at the increased level of 10% per annum. There is very little information available predicting inflation for these utilities. As a consequence, consideration has been given to how the prices have risen during the period October 2003 – October 2013 using DECC fuel price indices. This advises that during the period gas fuel prices have increased by 187.6% and electricity by 119%. Due to the number of variables affecting prices it is not possible with any certainty to predict further increases. The 10% allowance for inflation, therefore, is considered not to be unreasonable, but the actual variance would be somewhat different.

2.4 Project Funding / Finance

- 2.4.1 Two differing types of Funding costs have been associated with this Project.
- 2.4.2 Firstly, there is Development Funding – the provision of funding during the construction phase, up to receiving all the capital receipts from the land assets sales. Secondly, there is long term funding – based upon any further Project funding over a twenty year period that is required should the capital receipts prove to be insufficient to pay for the initial Project Costs.
- 2.4.3 Following discussions with EDDC's Head of Finance, funding costs have been based upon the Public Works Loan Board – Standard New Loan Rate – PWLB Project New Loan Rate – Maturity (for the short term development funding) and Annuity (for the long term borrowing). The rates incorporated are those advised on 17 December 2013.
- 2.4.4 The commencement of the Development funding has been identified within the cashflow exercises as being from March 2014.
- 2.4.5 It is noted that for this assessment borrowing, and thereby interest charges, have been allowed on a simple month by month basis. It is acknowledged that in reality EDDC could consider borrowing the entire sum required for the Development Funding and pay the costs on a bi annual basis.
- 2.4.6 Detailed cashflow evaluations have been prepared based on two generic programmes (a new 3,552m² purpose built office and Keyturn Project) and two specific programmes – Knowle Hotel and Clyst House refurbishments. These cashflows identified, inter alia, the particular funding details relevant to each option.

3.0 INCOME

3.1 Financial Capital receipts and regular revenue streams.

- 3.1.1 As mentioned earlier, identified EDDC assets have been formally valued based upon the RICS Red Book valuation principals. The highest financial value relevant combination has been set against the Initial costs as a credit.
- 3.1.2 It is advised that there have been three differing sets of valuations carried out specifically for Knowle and Manstone.

3.1.3 These are;

- On the basis of the options that EDDC remain at Knowle – three differing scenarios providing three differing values.
- That EDDC fully vacate Knowle and 50 dwellings are subsequently constructed on the site – with all affordable dwellings being located at Manstone
- Ditto, but with 63 dwellings and all affordable located at Manstone.

3.1.4 It is also advised that a Red Book valuation has been prepared for the Exmouth Town Hall, and the sum of £ 870,000 has been identified. This sum, however, has not been incorporated into any of the computations since the Council's intention for this Building is unknown. Should Members consider selling these premises a very useful additional capital, sum could be realised

3.1.5 There are other revenue streams that the Council are anticipated to receive on an annual basis, which have also been evaluated. This revenue has then credited against the particular Options anticipated Annual Running Costs. Such revenue streams include the income from EDBC when incorporated into EDDC's new Office.

3.1.6 In addition, for Clyst House the lower ground floor, less anticipated circulation space, core areas, café / seating / boiler room / LMR / PBX and store, has been evaluated for rental at an ~~80%~~ occupancy rate. A base allowance of ~~£ 10 /ft²~~, plus apportioned annual running costs of ~~£ 9 /ft²~~ have been allowed – providing an initial annual revenue stream during the first year of ~~£ 175,000~~. A nominal allowance has also been incorporated to reflect the Knowles current income – Caretakers rental and hire of the Chamber.

3.1.5 For the avoidance of doubt the rental area of the current EDBC, 467 m², can be absorbed within the two upper floors of Clyst House allowing a balance of 3,561 m² to remain – EDDC requirement for 250 desks @ 7 m² / desk is 3,352 m².

4.0 COMPUTATION OF THE OVERALL PROJECT COSTS.

4.1 Simply the overall initial project costs have been calculated on the basis of the initial costs, plus funding cost, less the most appropriate asset valuation combination. The resultant balance is either positive – whereby the Council have surplus funds available - or are negative so that the sum identified is required to be funded so that the initial project costs balance..

4.2 The annual running costs have been considered over a twenty year period – including allowances for inflation generally at 2% pa – though electricity and gas / energy has been calculated at 10% pa. Revenue received for renting space etc has then been deducted. The resultant figure is then compared with

the similar total for remaining at Knowle without any essential repair or refurbishment works being carried out.

- 4.3 The balance from each option is then added to the balance from the initial project costs – providing an overall figure which advises whether each option either provides a financially viable betterment or loss when compared to the existing Knowle facilities over a twenty year period.