


Document Issue Sheet

Issue Nr.	Document	File Path	Issue Date	Parties Sent to	Prepared By	Checked By	Reviewed By
A	Project Viability Report	C:/DL/60267227/EDDC/Viability Report/VR/Part A / Rev A DRAFT	5 June 2013	EDDC	SJP		
B	Project Viability Report	C:/DL/60267227/EDDC/Viability Report/VR/Part A / Rev B DRAFT	14 June 2013	EDDC	SP		DT
C	Project Viability Report	C:/DL/60267227/EDDC/Viability Report/VR/Part A / Rev C (3)	25 June 2013	EDDC	SJP		DT
D (4)	Project Viability Report	C:/DL/60267227/EDDC/Viability Report/VR/Part A / Rev D (4)	8 July 2013	EDDC	SJP	AS	DT

Authorised by (Director)	Darren Talbot
Date 8 July 2013	

CONTENTS

1.0	Executive Summary	4
2.0	Objectives	6
3.0	The Knowle	7
3.1	Introduction	7
3.2	A brief history	7
3.3	English Heritage	8
3.4	Issues associated with the current Knowle Offices	8
4.0	Office Accommodation requirements	11
4.1	Engagement	11
4.2	What is required from a new office	12
4.3	Spatial analysis layout	13
5.0	Consideration of potential Office locations	15
5.1	Introduction	15
5.2	Options to remain at Knowle	15
	Option 1 – Refurbishment of former Knowle Hotel	
	Option 2 - Replacement of Office Extensions	
	Option 3 - New Build on Upper Car Park	
5.3	Relocation to Honiton	16
	Former Rail Yard, Church Hill	
	Cattle Market	
	Heathpark Site (former SITA Depot)	
5.4	Relocation to Cranbrook	18
5.5	Continued provision at Exmouth Town Hall	18
6.0	Financial Viability	19
	6.1.0 Costs	19
	6.2.0 EDDC Land Asset Valuations	21
	6.3.0 Financial Viability	23
7.0	Other criteria affecting choice for the Office location	25
8.0	Programme	26
9.0	Funding Options and Cashflow	27
10.0	Risk	29
11.0	Recommendation	30

1.0 Executive Summary

- 1.1 East Devon District Council's office at Knowle is not fit for purpose. In operational and cost terms it is unsuitable for the running of an efficient modern Public Authority.
- 1.2 Knowle provides an overall floor area of 7,722m², whilst the EDDC's assessment to date for the size of a new HQ to provide Council's services identifies a requirement for an overall area of 3,352m².
- 1.3 Knowle's annual running costs, allowing for inflation, over the next twenty years are £ 4.8m more than similar costs for a new purpose built office
- 1.4 Knowle Offices have a considerable ongoing financial liability in respect of planned and unplanned maintenance. Essential repairs and upgrades to the Knowle have been identified that have an overall estimated cost of £ 1,566,000. However, even if all these works were to be carried out, the running costs would only be reduced by £ 26,929 per annum – including an energy cost reduction of £ 22,117 and a lowering of carbon by 110 tonnes.
- 1.5 Notwithstanding the Knowle Office's current Display Energy Certificate (DEC) rating of C, the building is considered as providing poor value in terms of energy costs. During the last financial year energy costs totalled £ 75,069. A new purpose built office to suit EDDC's anticipated floor area requirement could cost £ 29,064 per annum.
- 1.6 Production of CO₂ is correspondingly excessive – currently the Knowle Office energy use produces 401 tonnes, whilst for a new office it could be reduced to 136 tonnes.
- 1.7 The layout of the buildings is generally cellular creating an insular working environment which, as a consequence, provides a poor working and Customer environment. The current nature of the building also effectively prevents interaction between Departments and hampers any cultural transformation in the way that staff work and behave. The buildings lack proper full accessibility and adaption would be expensive and piecemeal due to the design of the building.
- 1.8 It is apparent that the current situation cannot continue since financially it is a significant drain on the monetary resources of the Council. Financial liability is likely to increase for maintenance and other issues in the future. The Council will need to consider whether these costs should be handed to the Public through increases in Council Tax or result in a reduction in services or both.
- 1.9 This Viability Report has examined options for the Council Office Accommodation based upon financial assessment. These options have included refurbishment of the current Knowle buildings and well as new build offices on Knowle and elsewhere within the District.

- 1.10 Whilst it is understood that the Council's desire is that their new office accommodation should be constructed to a BREEAM Excellent standard, the review of options has also considered financial viability based upon BREEAM Very Good. This latter criterion provides potential savings in comparison to the BREEAM Excellent standard, although the building's environmental performance would be less.
- 1.11 After careful consideration of the identified options for the new Council Accommodation, a number of Options have been found to be financially viable based either on a BREEAM Very Good or BREEAM Excellent basis, at the following four locations;
- Church Hill, Honiton – on the former rail yard
 - Heathpark, Honiton – on the former Sita Depot adjacent to East Devon Business Centre.
 - Cranbrook Town Centre
 - Cranbrook – an identified plot close to the Town Centre within the Cranbrook overall Development area.
- 1.12 It is acknowledged that whilst evaluating the affordability / viability of options, consideration has been given to EDDC investing sums that would have been otherwise be spent on Knowle annual running costs over the next twenty years which could be saved by moving to a new purpose built office.
- 1.13 It is confirmed that this Part A Report does not identify specific site values due to commercial confidentiality reasons. It is understood that when this information is no longer confidential, EDDC will publish the data

2.0 Objectives

- 2.1 East Devon District Council (EDDC) needs a building suitable for the running of an efficient modern authority. The former Knowle Hotel building, in particular, is not designed for modern office use and is wasteful on space. It is not energy efficient, the layout makes it difficult to organise the workforce, and discourages corporate working. These are among many other factors which make this building inefficient, unsuitable and inaccessible. The Council has expressed a wish to move to a better Office building, that will be preferably BREEAM Excellent rated, thereby making a lasting impact on the carbon footprint of the Council.
- 2.2 EDDC has advised that there is limit budget available to undertake either refurbishment of their Knowle Offices or the provision of a new Building. They have advised that any such works, if approved, would be required to be carried out at no additional cost to the Council Taxpayer. Staying in the current buildings will be problematic for residents across the District either in terms of the possibility of higher Council Tax or reduced services or both.
- 2.3 The objective of this Project Viability Report is, therefore, to advise on the viability of any new office facilities, identifying budget costings for both the refurbishment or construction of an office, including associated fitting out and equipment costs, and to then compare these costs to the value of identified EDDC's land assets that could be sold to provide monies for the associated expenditure. Consideration has also been included for borrowing, but only at a level that reflects the potential saving on Knowle annual running costs when compared to a new purpose built office over a twenty year period

3.0 The Knowle

3.1.0 Introduction

3.1.1 The existing East Devon District Council offices are located at Knowle, Sidmouth. The current offices sit in a total area of 5.40 hectares, including formal gardens and mature parkland.

3.2.0 A brief history

3.2.1 The Knowle Cottage / Hotel

- The original house, known as Knowle Cottage, was built by Lord Le Despencer in 1810 in the style of an extensive cottage ornée.
- Between 1820 and 1861 the property was owned by Mr T L Fish. In 1835 he carried out extensive alterations to the house and gardens.
- The Knowle was converted to a Hotel in 1880
- Extensive remodelling of the building was carried out between 1889 and 1904 providing the current austere appearance typical of late Victorian architecture.
- Between 1882 and 1968 the Knowle operated as a hotel, except during the Second World War years, when it was occupied by the RAF.
- In 1968 the Knowle Hotel had become run down and was purchased by Sidmouth Urban District Council for £ 50,000. To recoup some of this expenditure, plots within the grounds were sold off as building plots – a process that had commenced during the early / mid C20.
- In 1974 East Devon District Council was formed and began operating from the property. During that year planning was authorised for alteration works to the building.
- It is understood that very few internal walls were altered as part of these works, with many of the original rooms simply being renamed e.g. the Dining Room became the Committee Room and the Ballroom became the Council Chamber. Most of the original bedrooms were merely recarpeted and repainted for use as offices.
- Currently the building provides a gross internal floor area of 5,784 m²
- The surrounding gardens remained fairly intact until the early / mid 20th Century when various plots of parkland were sold off for private housing thereby reducing the size and integrity of the space.

3.2.2 EDDC Office Extension

- Subsequent to the alteration works to the Knowle in 1974, as numbers of staff increased, in 1978 the first of the two new office blocks were constructed to accommodate the expanding Council. The second new office block being commenced in 1983. Currently the Office Extensions provides a gross internal floor area of 1,938 m².

3.3.0 English Heritage

- 3.3.1 Following consideration of an application for Knowle and its grounds to be listed, on 18 September 2012 English Heritage (EH) wrote to EDDC advising that the Secretary of State for the Department of Culture, Media and Sport (DCMS) had decided not to add East Devon District Council Building and Landscape to the National Heritage List for England. EH identified a number of reasons for their decision including that "the building is only of modest architectural interest and does not demonstrate a high level of design interest or intactness necessary for a predominantly mid to late nineteenth Century building".
- 3.3.2 In response, EDDC applied to EH for a Certificate of Immunity. This application was recommended by EH to DCMS and, in their letter of 8 May 2013, it was advised that the Minister had certified that she did not intend to list the building.

3.4.0 Issues associated with the current Knowle Offices

- 3.4.1 Almost forty years on from the alteration works to the Knowle in 1974 and the later construction of the two new office extensions, no major changes to the overall building structure and fabric have occurred. Only superficial works such as decorating, modernisation of the reception area and partial replacement of windows has been carried out. In the absence of certainty about whether a move to new premises would occur and the reluctance to spend money that could effectively be wasted, the Council has resisted a planned maintenance programme for the Knowle. As a result maintenance is currently only carried out on a reactive basis.
- 3.4.2 Consequently;
- the building fabric is tired and old,
 - structurally there has been water ingress to both buildings, particularly the Office Extension due to the failure of the roof coverings, whilst fungal mould growth and internal leaks from live soil pipework within the structure are apparent in the former Hotel building,
 - asbestos is understood to be present in both buildings, requiring local removal before any intrusive works are carried out.
 - much of the furniture and fixtures are old, worn out and need to be replaced
 - the building is unsatisfactory in terms of ease of access for both staff and visitors if they are physically disabled, elderly or visually impaired
- 3.4.3 The current gross internal floor area totals some 7,722 m², with the former Hotel providing 5,784 m² and the Office Extensions 1,938m². EDDC has identified as part of their work planning that due to more mobile working, the anticipated number of desks needed for a new office would be 250 nr. On this basis EDDC would require a floor area of 3,352 m² including interview / meeting rooms, storage, Council Chamber, Members Area and other similar ancillary areas. As a result there is a difference between the current Knowle floor area and that required of 4370 m² or 57%.

- 3.4.4 As noted above, little conversion work occurred when adapting the hotel building into an office. Very few of the original partition walls have been removed, resulting in most of the offices being small and cellular. The corridors and main staircase are overly wide and expansive.
- 3.4.5 The office extension is also generally cellular, albeit the individual offices are somewhat larger than those in the former hotel. The cellular nature denies EDDC the opportunity of providing a flexible workspace for their workforce.
- 3.4.6 The current Display Energy Certificate (DEC) for Knowle identifies a C rating. This rating could be improved not only by virtue of a smaller floor area, but also through the use of more thermally and energy efficient materials and services installations that a new or refurbished building designed to a Breeam Very Good or Excellent standard would provide. This would also have associated benefits for the office's running costs in terms of heating, lighting and other energy uses as well as a reduction of carbon emissions.
- 3.4.7 To illustrate this point, reference is made to Davis Langdon's Knowle Energy Use and Maintenance Cost Analysis Report, May 2013, which confirms;
- The current total annual running cost at March 2013 are £ 431,486, with energy costs of £ 75,069 and 401 tonnes of CO2 being produced.
 - Even if essential repairs / upgrade works costing £ 1,566,000* were to be carried out before the end of FY 13 / 14, by March 2015 there would only be a saving of £ 26,930 for the annual running costs, including energy saving of £ 22,136 and a reduction of 110 tonnes of CO2.
 - In comparison, a new purpose built office of 3,352 m2 could have annual running costs of £ 269,424, including energy costs of £ 29,064 and 136 tonnes of CO2.
 - The current running costs at Knowle are anticipated to increase by March 2015 to £ 458,170, with energy costs being £ 83,901 of this cost. Therefore in comparison to a new office of 3,352 m2 there could be potential savings of £ 188,746 on annual running costs, £ 54,837 for energy and 265 tonnes of CO2

Note * Essential repairs / upgrade works include;

- replacement of windows,
- replacement of existing electrical switchgear, distribution boards, etc
- replacement gas boilers, flues, plantroom pipework, controls, valves and insulation
- replacement of old electrical storage heaters and replace with extension of existing LTHW system
- replacement radiator controls and pumps
- wiring upgrades and replacement of existing lighting
- new phone system
- associated builders work in connection
- re roofing of the office extension buildings

- 3.4.8 The storage of documents both current and archived is another concern. A survey of documentation storage in 2011 established that there was over 640m2 of floor space taken up by stored documentation. This storage space incorporated over 20 dedicated rooms in addition to numerous cupboards within the building and external storage in adjacent portakabins.

- 3.4.9 Members acknowledged that this was entirely unsustainable, and in early 2012 Cabinet and Council recommended that a proposed Electronic Document Management Strategy (EDMS) should be implemented to enable a substantial reduction of the amount of storage space required. This had the potential of reducing the office size required in either a new or refurbished office, as well as allowing a more open plan layout design to be considered. A further benefit provides the potential of allowing employees to be more mobile because dependence on hard copies of documentation would be removed allowing the increased use of mobile devices and electronic format documents.
- 3.4.10 At the time of writing this report there remains a total of 50m2 of storage required in the new office accommodation, together with a requirement for some remote storage away from any new office accommodation. Further work on the 'Transactional' phase of the EDMS project was completed as scheduled and achieved under budget.

4.0.0 Office accommodation requirements

4.1.0 Engagement

- 4.1.1 The importance of engagement with Members and Officers and information provision to the Public has been recognised throughout the process by EDDC. Regular press releases, website FAQs and responses to correspondence have continued throughout the process. There was also formal consultation focused on the unsuccessful planning application for the Knowle development element of the new office project.
- 4.1.2 Further, the following key messages and principals were identified by Members for engagement with relevant parties;
- Reduced running costs and lower carbon footprint
 - Improved methods of working – better ICT and an increase in mobile working providing better accessibility for customer needs
 - Design - the design of the new building should be visually attractive.
 - Cost Conscious – that the Project will only proceed when it is established the relocation will not be a burden on the public purse
 - Staff Retention - engagement and consultation to ensure vital skills and talent are retained.
 - Legacy – If the decision is to leave Sidmouth, then a legacy is provided that is positive for the town.
 - Management and Delivery - there should be transparency in terms of project costs
 - A good place to work - the new office should be a modern, sustainable building and a good environment for all occupants and visitors
- 4.1.3 A comprehensive survey of Members requirements and comments has been carried out covering such subjects as the nature and location of accommodation through to parking, landscaping, signage and sustainability.
- 4.1.4 Consultations have also taken place with EDDC staff, including internal Stakeholder Workshops and updates being provided via internal communications and meetings.
- 4.1.5 Further, EDDC has considered differing working practices for improved service delivery. This has included a more mobile / agile method of working, as currently adopted by several other Local Authorities as well as public bodies and private companies.
- 4.1.6 The Corporate Organisational Development Manager is investigating the potential for staff to work in more mobile and flexible ways. Work Smart is the council's name for its home, mobile and flexible working arrangements for staff which will be developed through the Council's management team and subject to consultation with staff and fit with operational requirements. It will involve more staff working away from the office or dividing their time between the office and another location. In doing so EDDC hopes to have a more flexible workforce and service delivery available and accessible to customers around the district. More desks can be shared, storage space reduced, communal and shared space more effectively provided and less traditional office space overall will be required. Initial staff survey work, Member requirements and office layout planning has resulted in an office size projection that involves a mix of communal space, meeting space,

reception area, 250 desks and Council specific space such as the Council Chamber itself. This leads to an overall total floor space of 3,352m². Further detailed operational and design work will be conducted to refine the mix and usage of that space.

4.2.0 What is required from a new Office?

4.2.1 Consultations with Members and Officers identified the following as requirements from a new Office;

- Reduced upkeep and maintenance costs
- Provision of better working conditions for staff thereby improving efficiency and effectiveness.
- Provision of better facilities for Customers and Members.
- Assist EDDC to meet diversity and equality duties, including full disabled access to their offices which is currently not possible.
- A modern sustainable building, fit for purpose with good IT infrastructure
- Larger / modern and robust workspaces and flexible meeting and interview rooms
- More effective rationale between department positions
- More robust and adaptable committee / member rooms and Council Chamber
- Provision of catering facilities for both staff and Members of the Public
- An open plan office environment, laid out to reflect the interdependency of departmental adjacencies. Designed to ensure appropriate confidentiality is preserved. The need to ensure that noise is minimised through acoustic treatments.
- A new phone system and inter-connected ICT.
- Better lay out and facilities within the Reception Area,
- Better security
- Provision of a break out area for informal meetings and relaxing during breaks.
- Kitchen / Kitchenette areas for beverages and heating food
- Shower facilities together with suitably sized secure lockers.
- Onsite Parking, including motorbikes and mopeds – a minimum number of 200 car parking spaces has been identified.
- Secure covered cycle racks

4.2.2 A new office would also;

- Provide the potential best opportunity to update current management processes with a particular focus on more mobile / agile working.
- Result in a smaller carbon footprint with less impact on the environment. EDDC would prefer to achieve BREEAM Excellent. A sustainable and much more efficient new building would reduce EDDC's long term environmental impact, allowing for balancing out the impact of building work and moving.
- By design and use of appropriate materials, running costs could be significantly lower in terms of heating, lighting and other energy uses.

- A relocated office would enable much more flexible and varied means of communication with residents. It should also allow access from all parts of the District and beyond via main transport network links. This would provide choice, make life easier for many customers, and could also provide a wider catchment area for attracting new staff.
- The HQ location is one part of the Council's response to change in the way that it meets the expectations of its residents, business community, partners and government. New efficiencies and technologies will allow EDDC to be available across the district including among towns and communities in ways that work best for local people.

4.3.0 Spatial analysis layout

4.3.1 Kensington Taylors, Charter Architects (KT), have been assisting EDDC with the Office Accommodation Project since 2010. In August 2012 they prepared spatial analysis drawings advising how a new build office could be laid out. This is not a formal building design but a simple layout that identifies space requirements and departmental functional inter-relationships.

4.2.2 Several options both in desk numbers and space per desk were produced and comments were subsequently returned by Members and Senior Staff.

4.2.3 In the event, a preferred spatial analysis has been identified based upon approximately 7m² per desk, which together with specific Council, Ancillary and core areas provides an overall gross internal area (GIA) of 3,352m², incorporating;

- **Departments – 1,799 m²**
250 desks allowing a space of circa 7.0m² per desk
Storage
- **Council – 430 m²**
Council Chamber
Members Area,
Committee Rooms
- **Ancillary – 405 m²**
Meeting Rooms
Interface areas
Reception
Cafeteria (including kitchen and staff kitchenettes)
UPS, Server, Systems Build Room
- **Atrium + Circulation – 358 m²**
- **Cores – 360 m²**

- 4.2.4 This spatial analysis design for a new build is generic in terms that it could be incorporated into any reasonable location with a minimal amount of site specific alterations.

5.0.0 Consideration of potential office locations

5.1.0 Introduction

- 5.1.1 Considerable work has been undertaken investigating potential locations for a new relocated office for the Council within the District.
- 5.1.2 Consultants were commissioned in 2010 to assess the potential for development on the Knowle and relocation to Honiton Heathpark. They were retained to assist in planning and design work including the preparation of a Sequential Test Report for Honiton, which was issued in June 2012 to assess the suitability of potential sites in and around Honiton. The sites considered were;
- Cattle Market Site
 - Former Rail Yard, Church Hill, Honiton
 - Brownfield site – Heathpark Way
 - Greenfield Site on West periphery
 - Greenfield Site at Hayne Lane
 - Greenfield infill sites in Devonshire Way
 - Site south of St Rita's Centre, High Street
 - Greenfield site – Devonshire Way
 - Countrystore Site
- 5.1.3 In addition there have been recent discussions with the developers of Cranbrook to explore two alternative site options in the new town. Now that the Growth Point partners have secured additional funding to accelerate Cranbrook High Street development the possibility of relocation to the new town has re-emerged as a potential proposition. These have been tested by the Land Agent commissioned to inform the viability report. The following sections reflect the consideration of Options to date.

5.2.0 EDDC Options to Remain at the Knowle

- 5.2.1 The Knowle is EDDC's primary capital asset that, if sold, could potentially provide the finance to allow their ambition of new office accommodation to be achieved. It is important, therefore, that any refurbishment / new build on the site would be carried out to ensure the maximum value of the relevant balance of land is realised.
- 5.2.2 Following DMC's review of the Knowle Outline Planning Application (OPA) on 1 March 2013 and the comments advised, the opportunity has been taken to review further possible options for Knowle. As a result, Zones A* and E (as shown on the Masterplan that accompanied the Knowle OPA) are no longer considered as relevant for development within this report. It is understood that the draft Local Plan will be amended as a minor change to reflect this opinion. This reduces the available areas for development to Zones B (Upper Car Park), C (Existing Offices) and D (Knowle Depot site). Note* - one of the Knowle options subsequently discussed will require additional car parking – possibly by extending the Zone A grasscrete area.

- 5.2.3 It is understood that EDDCs intention is that the balance of the Knowle site (all areas other than Zones B, C and D) which is not used for development or sale, should be handed to Sidmouth Town Council together with a modest financial legacy to cover maintenance for a fixed period of time.
- 5.2.4 The following is a list of potential options for the Knowle that have been considered for the EDDC Office Accommodation Project. It is noted that the cost for refurbishment of all the existing Knowle Buildings is entirely unviable. The updated Cost Model for this proposal – "Cost Model for Refurbishment of all Existing Knowle Office Buildings, Rev G dated 4 June 2013", confirms a potential cost of £ 15,198,685. The sale of Knowle Zone D (Zone B would need to be retained for parking), together with other identified land assets would fail to provide the significant funds required.
- 5.2.4.1 Option 1 – Refurbishment of the former Knowle Hotel building. This option allows for EDDC fully refurbishing part of the building for their Office Accommodation, together with the entire external envelope. The surplus floor area within the building, located in a single wing separated from the EDDC Office area, would be sold for mixed use development. Due to the nature of the existing building, the refurbishment could realistically only be carried out to a BREEAM Very Good standard. The Office Extensions would be demolished and the resultant balance of the Zone C area utilised to provide 200 car parking spaces, with the surplus area within this Zone being sold. Zone B would be available for sale once the new car parking facility had been provided. Zone D would be available for sale once the existing Depot had been relocated.
- 5.2.4.2 Option 2 - All the existing Knowle Office Buildings would be demolished, being replaced with a new two storey office being constructed to either BREEAM Excellent or Very Good standards. New car parking facilities would be provided within Zone C for 200 cars, with the balancing area being sold. Zones B and D would be sold once the car parking facilities and existing Depot had been relocated respectively.
- 5.2.4.3 Option 3 - Build a new two storey office accommodation on Zone B. This option will require the resultant loss of existing car parking spaces to be replaced elsewhere within the grounds – possibly by an extension of the existing "grasscrete" car parking to Zone A. Zones C and D could be sold once vacated.
- 5.2.5 It is important to appreciate that all of the options identified above will cause the commercial valuation for Knowle to be significantly reduced from that which could be received should no office accommodation works be undertaken. This aspect is discussed in detail in Chapter 6.

5.3.0 Relocation to Honiton

- 5.3.1 Honiton was identified at an early stage as being potentially the preferred location of any relocated office due to the availability of an EDDC owned site and Honiton's more centralised location within the District and superior infrastructure links to those enjoyed by Sidmouth.

5.3.2 Following Kensington Taylors Sequential Analysis, three sites were identified as being potential locations for the office, namely;

5.3.2.1 Former Rail Yard, Church Hill Depot.

- The site lies south of the Town Centre with access via New Street to the High Street. Church Hill then continues south to Waterleat Avenue / Lower Marl Pits Hill - part of Honiton's southern relief road.
- There is also understood to be available access from the rear of the site via Woodmans Crescent and Crosscut Way.
- It is noted that there is restricted access for two way traffic along New Street with passage only available for one vehicle at a time.
- The site is also adjacent to Honiton Railway Station.
- Preliminary, without prejudice, discussions have taken place with the site's Owners, but they have advised that they currently have no plans to move from what they advise is a good location for their thriving business.
- It is anticipated in order to provide a sufficiently attractive package, and in addition to the market value of the site, a replacement site in a comparable or better location as well as a new retail / storage warehouse and external hardstanding would need to be provided.
- As a result there are significant additional cost, programme and risk implications associated with this Option

5.3.2.2 Cattlemarket (or Livestock Market), Silver Street.

- The Cattle Market at Silver Street Honiton is no longer considered to be a possible EDDC office relocation site, and therefore part of the viability review, for a number of reasons including the fact that EDDC only hold a leasehold interest in this site, EDDC's lease contains restrictions on use and the fact that the premises are currently occupied by EDDC's sub-tenant pursuant to a **statutorily protected** business tenancy. In relation to the latter, the sub-tenant has recently applied to the Court for a new tenancy

5.3.2.3 The former SITA site at Heathpark

- This specific plot was previously occupied by a SITA Depot, which has been subsequently demolished. There is an adjacent plot that incorporates the East Devon Business Centre (EDBC). Both plots are owned on a freehold basis by EDDC.
- It is possible to incorporate a 3,352 m2 new office together with 200 parking spaces on the plot of the former SITA Depot without the need to demolish the EDBC, albeit some reconfiguration of the existing car parking to provide access will be required

5.4.0 Relocation to Cranbrook

- 5.4.1 Cranbrook has re-emerged as another potential location for EDDC's new office accommodation and was originally considered in 2009. Early concerns that there would be a disconnect between the programmes for the new Cranbrook Community and a new EDDC office have demanded reconsideration as a result of EDDC's Office Accommodation Project timeline extending whilst Cranbrook's programme has accelerated through £20m of additional central government funding secured by EDDC and partners.
- 5.4.2 Initial, without prejudice, discussions have taken place with Hallam Land and currently there is an available option that EDDC could occupy a plot in a central location potentially sharing space with Cranbrook Town Council and a Public Library around the town's central square and high street. Should this proceed then EDDC could potentially receive a revenue stream from the Town Council of circa £ 30,000 pa. It is stressed that discussions with Hallam Land are at an early stage and if this option is to be pursued then further time will be required to better understand the proposal.
- 5.4.3 In addition, there is also the potential second option of purchasing an identified alternative plot close to Cranbrook town centre for the purpose of construction of a new EDDC Office.

5.5.0 Continued Provision at Exmouth – Town Hall

- 5.5.1 The Town Hall in Exmouth is owned by EDDC, with part of the office accommodation on the first and second floors being leased to Devon County Council (DCC). Though never intended as a destination for an entire relocated office, it was initially considered as an option when DCC gave Notice that they would be seeking to terminate their lease in the short to medium term future.
- 5.5.2 However, it is no longer clear as to DCC's intentions regarding timing of staff movements and location for continued provision of County services. Furthermore, there are complications in terms of EDDC staffing level predictions subject to the impact of Universal Credit. In the current circumstances it is advised by EDDC that no action should be taken regarding Exmouth Town Hall pending greater clarity and ongoing discussions with DCC.

6.0 Financial Viability

6.1.0 Costs

6.1.1 Introduction

6.1.2 In order to establish a firm basis upon which to evaluate the financial viability of the EDDC Office Accommodation Project, it is important that comparisons are made on a like for like basis.

6.1.3 In this respect Davis Langdon have prepared costs based upon Kensington Taylor's Spatial Analysis drawing Rev I – a new build office providing circa 7m² per desk, which together with specific Council, Ancillary and core areas provides an overall gross internal area (GIA) of 3,352m² over two floors

6.1.4 There is, however, an exception to this principal for one of the identified options. Knowle Option 1 relates to the refurbishment of part of the existing Knowle Hotel building. Whilst a GIA floor area of 3,352 m² has been allowed, there are other costs included that relate to the entire building, such as the need to ensure the external envelope is refurbished for water integrity reasons.

6.1.5 EDDC's preference that their new office accommodation should achieve a BREEAM Excellent standard has been recognised. However, mindful of the current financial climate, the cost of the new office accommodation has also been calculated on the basis of BREEAM Very Good. The financial difference between the two standards is typically in the order of 12 – 15%

6.1.6 For Knowle Option 1, it would not be financially realistic to expect to achieve a BREEAM Excellent rating due to the nature of the existing building. Consequently, the cost for carrying out this Option has only been calculated on a BREEAM Very Good basis.

6.1.7 Particulars

6.1.8 A number of baseline constant costs throughout the costing exercise have prevailed;

- Inflation has been allowed using the BCIS Tender Price Indices uplifting the base costs to Q1 2015
- The costs for a new build office, based on a BREEAM Excellent standard including 20% Design and Construction Risk allowance is £ 7,865,236 (equivalent to £ 2,346 / m²).
- The equivalent cost for a BREEAM Very Good standard is £ 6,878,977 (equivalent to £ 2,052 / m²)
- The GIA of the East Devon Business Centre has been established as 500 m², excluding the existing atrium area. Identical construction costs as for the main office, as noted above, have been used to establish the estimated construction costs, where relevant.
- Client Costs have been included incorporating the following elements;
 - Furniture, Fixtures and Equipment
 - Reimbursement of EDDC Office Accommodation Budget projected through to December 2013

- o ICT costs for identified matters and associated equipment
 - o Employment for a two year period of a dedicated EDDC Officer to provide internal project management and coordination services.
 - o Work Smart equipment requirements
 - o Allowance for Staff including fixed term transport allowance
 - o Purchase of storage containers for offsite stored archived documentation
 - o There are other Client costs that are specific to the particular option under consideration e.g. decanting and removal costs.
 - o Where applicable, the cost for the hire of temporary office accommodation has been included based upon written advice received from Portakabin.
 - Other costs included
 - o Where applicable site purchase costs have been included.
 - o For the former Rail Yard at Church Hill Honiton costs, where relevant, are included for the provision of a replacement facility for the existing occupier
- 6.1.9 Finance charges for gap funding for the period up until financial receipts have been received for land asset sales have been included on the basis of a short term loan of 2.00% per annum. – see Section 9 Funding Options and Cashflow for further particulars.
- 6.1.10 External works costs have been estimated on a specific basis relevant to each particular option.
- 6.1.11 Consideration of current Knowle Annual Running Costs**
- 6.1.12 As noted in the Knowle Energy Use and Maintenance Cost Analysis Report the annual Knowle running costs, as at March 2015, are predicted to be £ 458,000 if no Essential Repairs were carried out. When considered over a twenty year period, including an allowance for inflation of 2.5% pa, this cost equates to £ 11,704,000.
- 6.1.13 Conversely, for a smaller purpose built office of 3,352 m², the anticipated annual running costs at March 2015 could be £ 269,000. Over a twenty year period, this would equate to £ 6,882,000 inclusive of interest charges.
- 6.1.14 Thus by moving to a new purpose office EDDC could save a total of £ 4,822,000 over a twenty year period.
- 6.1.15 EDDC rather than continuing to spend money on Knowle, could effectively invest this money - £ 4,800,000 - on a new building at no additional cost beyond their current expenditure, and thereby no additional cost to the Council Taxpayer.
- 6.1.16 The viability computation therefore advises whether any particular option is financially viable or otherwise by indentifying a threshold of £ 4,800,000. Simply, any option that requires funding of less than this figure is affordable, whilst any option that has a balance above is unaffordable

- 6.1.17 For the avoidance of doubt, whilst £ 1,566,000 could be spend on Knowle Essential Repairs, the resultant saving for annual running costs over a twenty year period, including allowances for inflation, would be only £ 688,000 – a sum £ 878,000 less than the original investment

6.2.0 EDDC Land Asset Valuations

- 6.2.1 Thomas Lister, Chartered Surveyors, have been commissioned by EDDC, following a competitive tender process, to undertake and prepare Reports and Commercial Valuations in respect of several sites and premises situated within the District.
- 6.2.2 Thomas Lister Valuation Reports has been prepared in accordance with the RICS Valuation Standards 8th Edition ("Red Book") issued by the Royal Institution of Chartered Surveyors effective from 30th March 2012. The Valuation also complies with the International Valuation Standards (IVS). The basis of Valuation adopted is Market Value; in using this definition Thomas Lister confirm that the interpretive commentary set out in the Red Book has been applied.
- 6.2.3 The RICS 'Red Book' contains mandatory rules, best practice guidance and related commentary for all members undertaking asset valuations. The "Red Book" is issued by RICS as part of their commitment to promote and support high standards in valuation delivery worldwide. The publication details mandatory practices for RICS members undertaking valuation services.
- 6.2.4 With specific reference to Knowle, Thomas Lister, have prepared their Report and Valuations based upon the following;
- Knowle Option 1
 - 37 dwellings
 - 25 apartments in part of the Knowle Hotel building
 - Knowle Option 2
 - 41 dwellings
 - Knowle Option 3
 - 46 dwellings
 - Knowle A – if EDDC Offices move from Knowle
 - 50 dwellings

Note: This utilisation complies with the draft Local Plan in respect of the number of new dwellings
 - Knowle B – if EDDC Offices move from Knowle
 - 63 dwellings

Note: This utilisation is considered compliant with the draft Local Plan – provision of 50 dwellings plus 25% of Sidmouth's infill allocation - 13 further dwellings. This particular proposal has been included to understand what a Developer could potentially incorporate on the site, the associated value of the development and thereby to the reciprocal land value. This is to ensure EDDC and the District Council Taxpayer receives best value.

- 6.2.5 EDDC Planning Guidance advises that the Council will seek to ensure that 40% of dwellings, in a development of 5 or more dwellings, are affordable. EDDC are advised that a consequence of including affordable housing at Knowle would be a significant financial effect to the site value. Consideration has, therefore, been given to relocating the required affordable housing from Knowle.
- 6.2.6 The EDDC own the nearby Manstone Depot on a freehold basis. It is understood that notwithstanding the Office Accommodation Project, it is the Council's intention to move the EDDC Depot operations to a geographically central location within the District
- 6.2.7 The Manstone Depot site has a gross area of 0.54 ha (1.34 acres) and is located close to adjacent affordable housing developments and services.
- 6.2.8 Kensington Taylor have reviewed the Manstone Depot site and concluded that 28 dwellings could be reasonably constructed on this site. Manstone Depot is identified within the draft local plan as a potential site for residential allocation alongside the currently residential allocation zones within the Knowle.
- 6.2.9 Clearly, any such development proposals would ultimately need to be considered and approved by the planning authority. It is acknowledge that this approach does present a risk, but it is noted that the incorporation of Manstone could provide 28 affordable dwellings.
- 6.2.10 The process of considering the various combinations of land asset values to provide the best particular financial value tailored to each Office Accommodation Option is complicated. In establishing values for this Viability Report some 120 of the most relevant differing combinations have been identified and considered.
- 6.2.11 For the avoidance of doubt, it is confirmed that valuations of EDDC land assets in this report have only been considered in respect of Knowle, Manstone Depot and Heathpark (SITA and EDBC plots)
- 6.2.12 Particulars of Land Asset Valuations**
- 6.2.13 Due to commercial confidentially reasons, it is not possible to identify particulars of the EDDC Land Asset Valuations prepared for this Viability Report. Simply, if the market were to be fully aware of the commercial value of any particular asset, then it would be likely that any subsequent sale could be prejudiced, thereby denying the District Council Taxpayers the full potential value.
- 6.2.14 As a consequence, for the purposes of this Report, advice will only be provided whether the Option is affordable (viable) or unaffordable (unviable).
- 6.2.15 In confidence, members will be advised regarding specific deficit or surplus amounts relative to each option identified but these will not be made public. At an appropriate future date beyond the time when its revelation could be prejudicial, the Council aims to publish this detail.

6.3.0 Financial Viability

- 6.3.1 In consideration of the costs estimates prepared for each of the identified options, compared to the financial value of particular combinations of relevant EDDC land assets, the attached Overall Summary identifies whether individual Office Accommodation Options are affordable or otherwise.
- 6.3.2 Mindful of the proposal to consider the money EDDC could save by moving to a new purpose built office as an investment, the threshold for affordability / viability is whether an Option requires funding, inclusive of interest charges, of up to £ 4,800,000. Any Option that requires funding above this threshold is deemed unaffordable / unviable as informed on the attached Overall Summary.
- 6.3.3 In summary, in consideration of the value of Knowle for 50 dwellings (with all affordable dwellings moved to Manstone), the following options are viable;
- BREEAM Excellent
 - Heathpark
 - Cranbrook Option 2*
 - Cranbrook Option4*
 - BREEAM Very Good
 - Heathpark
 - Cranbrook Option 2*
 - Cranbrook Option 3
 - Cranbrook Option 4*

Note* - Option not affordable if Heathpark cannot be sold for Food Retail, see 6.3 6 below.

- 6.3.4 Alternatively, in consideration of the value of Knowle based on a total of 50 dwellings plus 25% of Sidmouth's infill allocation – 63 dwellings (with all affordable dwellings moved to Manstone), the following options are viable;
- BREEAM Excellent
 - Church Hill Option 3*
 - Heathpark
 - Cranbrook Option 1
 - Cranbrook Option 2*
 - Cranbrook Option 3
 - Cranbrook Option 4
 - BREEAM Very Good
 - Church Hill Option 3*
 - Heathpark
 - Cranbrook Option 1
 - Cranbrook Option 2
 - Cranbrook Option 3
 - Cranbrook Option 4

Note* - Option not affordable if Heathpark cannot be sold for Food Retail, see 6 3.6 below

- 6.3.5 None of the Knowle Options are financially viable either on a BREEAM Very Good or BREEAM Excellent basis.

INITIAL ASSESSMENT OF RELOCATION VIABILITY

BASED UPON APPROXIMATE COSTS AND THOMAS LISTER VALUATIONS

OVERALL SUMMARY - PART A

In consideration of the Indicative Cost Plans in respect of the several options for EDDC new / refurbished Office Accommodation together with consideration of defined additional funding (where relevant) and reconciling these costs with the valuations prepared by Thomas Lister the viability or otherwise of the identified Options has been established.

	BREEAM Very Good	BREEAM Excellent	Value based upon
Knowle			
Option 1 Refurbishment of part of Knowle Hotel, demolition of the Office Extensions and provision of new car parking <i>NOTE: To be able to refurbish the Knowle to BREEAM Excellent standard would be potentially prohibitively expensive. It is therefore considered Not Applicable</i>	Not affordable	N/A	37 dwellings 25 apartments in the Knowle Hotel building
Option 2 Demolition of EDDC's existing Knowle Offices, construction of new	Not affordable	Not affordable	41 dwellings
Option 3 replacement car parking facilities	Not affordable	Not affordable	46 dwellings

	Based upon Knowle Zones B, C & D with 50 Dwellings plus a minimum 40% affordable moved to Manstone with Heathpark values as required		Based upon Knowle Zones B, C & D with 50 Dwellings and 25% of Sldmouth's infill allocation plus a minimum 40% affordable moved to Manstone with Heathpark values as required	
	BREEAM Very Good	BREEAM Excellent	BREEAM Very Good	BREEAM Excellent
Former Rail Yard, Church Hill, Honiton				
Option 1 Relocate EDDC's Office to Church Hill, Honiton. Move current Occupiers to part of existing EDDC Heathpark site	Not affordable	Not affordable	Not affordable	Not affordable
Option 2 Relocate EDDC's Office to Church Hill, Honiton. Move current Occupiers to another part of Heathpark	Not affordable	Not affordable	Not affordable	Not affordable
Option 3 Relocate EDDC's Office to Church Hill, Honiton. Incorporate EDDC Move current Occupiers to another part of Heathpark <i>But if Heathpark is not sold for Food Retail</i>	Not affordable	Not affordable	Affordable	Affordable
	Not affordable	Not affordable	Not affordable	Not affordable

Heathpark

Relocate EDDC's Office to former Sita Depot Site	Affordable	Affordable	Affordable	Affordable
--	------------	------------	------------	------------

Cranbrook

Option 1 Relocate EDDC Office to Town Centre as Hallam Land Proposal	Not affordable	Not affordable	Affordable	Affordable
Option 2 Relocate EDDC Office to Town Centre as Hallam Land Proposal, incorporate EDDC <i>But if Heathpark is not sold for Food Retail</i>	Affordable	Affordable	Affordable	Affordable
	Not affordable	Not affordable	Affordable	Not affordable
Option 3 Relocate EDDC Office within Cranbrook	Affordable	Not affordable	Affordable	Affordable
Option 4 Relocate EDDC Office within Cranbrook, incorporate EDDC <i>But if Heathpark is not sold for Food Retail</i>	Affordable	Affordable	Affordable	Affordable
	Not affordable	Not affordable	Affordable	Affordable

NOTE

Affordable

The Option is affordable based upon the sale of identified land assets plus additional Funding of up to £4,800,000 inclusive of interest charges, borrowed over a twenty year period. The £4,800,000 is the additional sum that EDDC would need to pay out over the next twenty years for annual running costs without any upgrade / essential repair works being carried out as compared to a new purpose built office of 3,352 m²

Not affordable

The Option is not affordable based upon the sale of identified land assets plus additional Funding of up to £4,800,000 inclusive of interest charges, borrowed over a twenty year period. The Option would cost more than the £4,800,00 threshold, and therefore would be in excess of the existing budget. It could therefore potentially result in an increase of Council Tax or a reduction in services

- 6.3.6 Later in this Report the matter of risk is discussed. However, the opportunity is taken here to confirm that a key risk is the ability to ultimately receive the advised valuation sums. In this respect, it is confirmed that the EDDC plot at Heathpark has been evaluated based upon a variety of final uses, including the option of whether the current EDBC site is included or otherwise. Thomas Lister has advised that the best value would be obtained by selling the overall EDDC Heathpark Site for food retail purposes. If such a sale was not possible and the site was sold for another use, the impact of the value is very considerable – a reduction of circa 92.5%. While not unusual as a development scenario this is a particularly significant risk therefore the attached summary, where relevant, identifies the affect on affordability should a sale for food retail at Heathpark not be possible.
- 6.3.7 Notwithstanding this caveat and risk awareness, it is confirmed that there has been repeated interest expressed in the overall Heathpark site for food retail, including a formal offer that reflects the financial level to Thomas Lister's valuation.
- 6.3.8 For the avoidance of doubt, it is reaffirmed that the evaluations, where relevant, allows for the construction and completion of a new Business Centre of equal size (excluding the atrium) to the current building before any demolition of the existing structure would be permitted, thereby providing continuity of the facility for users and staff.
- 6.3.9 It is important to note that the several of the identified financially affordable options / locations also provide a potential financial surplus, in some cases substantial, after allowing for the immediate direct costs associated with the provision of the Office Accommodation.
- 6.3.10 No consideration within the viability computations has been allowed, where relevant, for the possibility of additional income revenue streams for EDDC from either tenants within any new office or weekend car parking charges for Council parking facilities etc.

7.0 Other criteria affecting choice of office location

- 7.1 Whilst financial viability is a primary factor in establishing whether an option is suitable for EDDC's future Office Accommodation, due consideration must also be given to other important factors that ultimately affect the final choice.
- 7.2 EDDC have identified the following as their desired outcomes for the Office Accommodation Project.
- Financially viable – fit for purpose and functional accommodation that places no extra burden on the East Devon taxpayer
 - Carbon friendly – a smaller, more energy efficient building preferably meeting BREEAM excellent standards
 - Customer focused – a building that is accessible for all Customers and enables working practices that allow our Customers to access services in the ways that suit them best.
 - Well equipped – an office space that maximises the use of technology for the benefit of Customers.
- 7.3 It is anticipated that following Members review, there will be either an outright preference for an option or alternatively two or three of the options will be identified and that these can then be further robustly interrogated and developed, including negotiations with relevant parties. It is anticipated that should the latter occur, a recommendation for a single option will aim to be provided for consideration by EDDC in December 2013.

8.0 Programme

- 8.1 A generic programme has been prepared – Overview Programme Rev O, dated 10 June 2013 – which identifies the potential duration for the construction of a new build office of 3,352m² in an undefined location within the District. Should EDDC decide to relocate their office, this programme will be revised to recognise specific issues including those associated with the chosen location.
- 8.2 This programme identifies the procurement of the Design Team, Commercial Land Agent and Contractor. Periods for construction of the office and Client fit out have also been included. In addition, the anticipated actions and timescales for the disposal of the EDDC land assets – including tender and, if applicable, the community right to bid process - are also incorporated.
- 8.3 It is advised that for the purposes of preparing this Programme and to enable certain time scales and interdependencies to be established, the Contractors appointment with the Council has been identified as a NEC 3 Option A Design and Build with the Designers being novated to the Contractor, though there would be a continuing role of monitoring and supervising for the Client. It is recognised that in the event other forms of procurement and contract may be preferred, and again in such a situation the programme would need to be altered accordingly.
- 8.4 Should the project proceed, the programme would be reviewed and, if applicable, updated on a regular basis throughout the project period.
- 8.5 It is recognised that there are key decisions associated with the project process that could potentially affect not only design but also cost and programme. There is also the need to ensure value certainty has been realised before committing to spend significant sums of money. For these reasons the programme identifies a number of Gateway Decision milestones, which require EDDC's approval to progress to the next stage of the project. By the incorporation of this decision making process, the level of certainty and, as a consequence, confidence in vital project elements will increase incrementally. It is anticipated that most of these decisions will be considered by a Project Board (a Committee of Members and Senior Officers), however for major decisions such as the agreement to sell land assets and the appointment of the Contractor such decisions should be elevated to Cabinet / Council.
- 8.6 A short summary of the key milestones and projected timings identified in Overview Programme Rev O is attached.

EXTRACT FROM OVERVIEW PROGRAMME REV O

PARTICULARS OF KEY MILESTONES / GATEWAY DECISIONS

Date	Milestone event	Description
17 July 2013	Cabinet Meeting	Recommendation for further development of several preferred Options
4 December 2013	Council Meeting	Consideration whether to proceed with a single Option for the Office Accommodation Project
5 May 2014	Gateway Decision Nr 1	Approval of appointments for a Design Team and Commercial Land Agent
18 July 2014	Gateway Decision Nr 2	Agreement of Design Team deliverables to RIBA Stage C (preparation of Concept Design including outline proposals for structures and building services systems. Outline specifications and preliminary cost plan). Approval to proceed to RIBA Stage D
5 September 2014	Gateway Decision Nr 3	Agreement of Design Team deliverables to RIBA Stage D (Development of Concept Design including structural and building services systems, updated outline specification and cost plan). Approval to proceed to RIBA Stage E. Approval to submit a Full Planning Application for the new Office. Approval to commence Contractor procurement
6 November 2013	Gateway Decision Nr 4	Agreement of Design Team deliverables to RIBA Stage E (preparation of technical designs and specifications sufficient to coordinate components and elements of the project). Approval to proceed to RIBA Stages F / G
23 January 2015	Gateway Decision Nr 5	Agreement of Design Team deliverables to RIBA Stages F / G (preparation of detailed information for construction and preparation / collation of contractors tender information).
13 February 2015	Gateway Decision Nr 6	Approval of contractors tender information. Agreement to issue tenders
Circa 20 April 2015	Gateway Decision Nr 7	Agreement for sale of EDDC Land Asset(s). Agreement to appoint Contractor. It is anticipated because of the significance of this decision that Council will formally consider rather than the Project Board
6 May 2015	Works on site commence	
1 June 2016	Works on site achieve Practical Completion	
11 July 2016	EDDC fully relocated to new office	

9.0 Funding Options and Cashflow

- 9.1 The proposed requirement for the development of a new office for EDDC is likely to give rise to a requirement for investment in construction works in advance of the receipt of funds from the disposal of EDDC assets at the Knowle at Sidmouth and potentially Heathpark at Honiton – dependent on the final selection of the site for the new EDDC offices.
- 9.2 This is a particular issue where EDDC have an occupational requirement for offices at the Knowle prior to completion of new offices and both sites at Sidmouth and Honiton will require planning permission for a change of use.
- 9.3 It is not considered that interested parties will pay full value for sites in advance of the grant of planning permission (and free from challenge) for the alternative uses proposed.
- 9.4 Accordingly, it is anticipated that EDDC will require interim funding in the short term between commitment for funding and receipt of funds from site disposal – such receipts are likely to remain subject to the outcome of planning applications for alternative uses. Such matters are considered within the risk assessment and factored into forward financial planning by the Council's Head of Finance.
- 9.5 In terms of funding the potential cashflow shortfall for the scheme, we would identify the following options;

9.6 Use of Public Borrowing facilities

EDDC may approach the Public Works Loan Board (PWLB) to seek an interim loan.

Key decisions will comprise the amount of funding required and the period for which it is to be borrowed and repaid. Short term borrowing attracts a lower interest rate (typically around 1.5-2.0% for a loan up to 3 years) whereas borrowing for longer periods (13 – 40 years) will attract interest rates of 3.0 - 4.5%.

The benefits are of providing a relatively low cost of finance to EDDC which would maximise the window of opportunity to maximise the proceeds of disposals of sites to be sold in a competitive process.

9.7 Sale of Existing Site(s) and Acquisition of New Offices from a Single Party

EDDC could consider entering into a contract with a single party which would provide for the selected developer to both fund and construct new offices to an agreed specification and have the benefit of the freehold of EDDC sites to be disposed of at Sidmouth and potentially Honiton (dependent on the selection of sites) at an agreed cost – potentially with a price adjustment or overage provision.

It is considered that developers would be interested in a proposal of this nature – and note that proposals of this structure have in fact already been suggested by two companies who have expressed an interest in the Heathpark site.

The benefits of this route are that this may negate the need for third party funding and provides for a forward disposal of surplus assets.

The disadvantages are that any party would not commit to a full value until such time as requisite planning approvals have been granted on which values have been based and any developer will need to be attracted into an arrangement of this nature by enhanced profitability. Accordingly, this may be reflected in lower overall levels of receipts.

9.8 Forward Sale and Leaseback of New Offices

EDDC may enter into a forward sale and leaseback of the new offices and account separately for the subsequent receipts from site disposals at Sidmouth (and potentially Honiton) at a later date.

The benefits of removing linkages are that it removes a direct requirement to dispose of surplus assets within a set timeframe and receipts may be retained within the Authority for investment in priorities at the identified time period.

The disadvantages are that EDDC will be required to meet the costs of a developer's profit and will also be required to enter into a new rental commitment for a period of say 15 up to 25 years which will create a revenue pressure on the Local Authority. Whilst it may be possible to create a capital receipt on commencement through the receipt of a reverse premium on entering the lease (subject to the negotiation of lease terms) – this is typically utilised to fund tenant fit out costs only.

9.9 Financed from EDDC reserves

As with other local authorities, EDDC have financial reserves that are invested externally. Due to the current financial climate these investments are not necessarily providing the level of return that would have been expected prior to 2007.

Invested reserves could be withdrawn and used to finance the new office pending the capital receipts from the sale of land assets.

The benefit would be that money from these reserves may be more beneficial to EDDC and the Council Taxpayer, even allowing for a comparable loss of investment interest rate, which may be lower than an interest rate being charged by an external source such as PWLB.

The disadvantages would be that during the period of internal investment, external interest rates may improve, thereby denying a betterment of return. Fees and Management cost would also be incurred

Should EDDC wish to proceed with this funding option any legal or financial restrictions would need to be investigated.

- 9.10 It is advised that pending any final decision regarding the method of funding for the Project, the viability computations allow for short term gap funding to be provided on the basis of 2.00% per annum.
- 9.10 For the longer term Project Viability Funding over a twenty year period an interest rate of 3.66% per annum has been included.
- 9.11 Detailed cashflows have been prepared based upon projected expenditure, land asset values and Overview Programme Rev O. This confidential information has been submitted to EDDC's Head of Finance for his consideration and information.

10.0 Risks

- 10.1 Risk Management is a management tool to assist projects to plan ahead successfully and try to avoid the unexpected. In using Davis Langdon's project management expertise and approach to Risk Management EDDC is seeking to manage risk and ensure that the outcome of the project will deliver the defined Council Objectives.
- 10.2 The risk management process is aimed at active management and reduction of risk, rather than just the monitoring of risk.
- 10.3 Throughout the period whilst the Viability Report has been prepared project risks have been considered by the Project Manager. Further there has been discussion with Senior Officers including a Risk Workshop. This has enabled risks to be identified and managed from the earliest project stages in order to minimise risk exposure.
- 10.4 The Project Manager maintains a live Project Risk Analysis register, a document that identifies numerous confidential matters including specific management actions. It would not be appropriate to disclose this entire document within this report. However the attached abstract identifies some of the most potential significant current project risks.
- 10.5 For the purposes of Options evaluated within this Viability Report a 20% risk allowance has been added to the costs for design and construction

Project Risk Register Analysis

Abstracted significant impact risks for Viability Report

RISK	IMPACT	EFFECT	MITIGATION
Cabinet does not endorse Viability Report	High	Project stops	Provide full details to Members to ensure that all information is available for their consideration and thereby enabling an informed decision to be made.
Council decides to not proceed with any Office Accommodation Works	High	Project stops	Provide full details to Members to ensure that all information is available for their consideration and thereby enabling an informed decision to be made.
The advised Office area of 3,352 m2 / 250 desks may not in the event be sufficient for EDDC's needs.	Medium	Project viability potentially at risk	The currently envisaged space of 3,352 m2 / 250 desks needs to be confirmed through further development of more mobile / agile working initiatives. Should reasonable adjustments be required this can be achieved through space management of current spatial analysis.
Land values may not be realised at the levels advised by Thomas Lister	High	Dependant on variance could make project financially unviable	Minimise risk by identification of key decision gateways
Potential for selling Heathpark for Food Retail may not be possible should another site within Honiton be developed prior to EDDC considering sale	High	Dependant on variance could make project financially unviable or severely reduce the number of options	Minimise risk by identifying decision gateways. Commence negotiations at the earliest opportunity pending Cabinet decision 17 July 2013
LPA do not accept that affordable dwellings can be removed from Knowle to Manstone	High	Potential to reduce asset value of Knowle site. Could cause long term funding / project viability issues	Pre App dialogue between Third Party and LPA. Make viability case.
Receipts from Land Asset sale will most likely be conditional upon the outcome of planning applications for alternative uses	High / Medium	Could cause longer funding period than currently envisaged	Management / Monitoring of land sale process. Ensure developers have early pre app discussions with LPA.

Project Risk Register Analysis

Abstracted significant impact risks for Viability Report

RISK	IMPACT	EFFECT	MITIGATION
Judicial review following the submission of a Planning Application for the new office	Medium	Could frustrate the programme causing additional costs and time to be incurred	Ensure all procedural requirements are followed rigorously.
Secretary of State "call in" any planning decision that may arise in the future, where SoS considers the proposal of more than local importance	Medium	Could frustrate the programme causing additional costs and time to be incurred	Monitor situation
Risk of additional unplanned maintenance being required as a result of continued occupancy of Knowle until such time as relocation to a new office occurs	Medium	Any additional unplanned maintenance costs are difficult to estimate. The effect would be additional costs being incurred before any move to a new office	Ensure regular inspections are carried out so that maintenance is proactive rather than reactive. Liaise with suppliers to ensure spares can be sourced and if necessary purchase low cost critical but long lead in items
Management of Clients Budgets	Medium	Overspend will create problems of affordability and potentially may result in reduction of quality, specification or omission of whole elements of the Project	Mitigated through robust management of budget. Monthly detailed reporting including cost reports, provision of pre tender estimates and rigorous change control procedures.

11.0 Recommendation

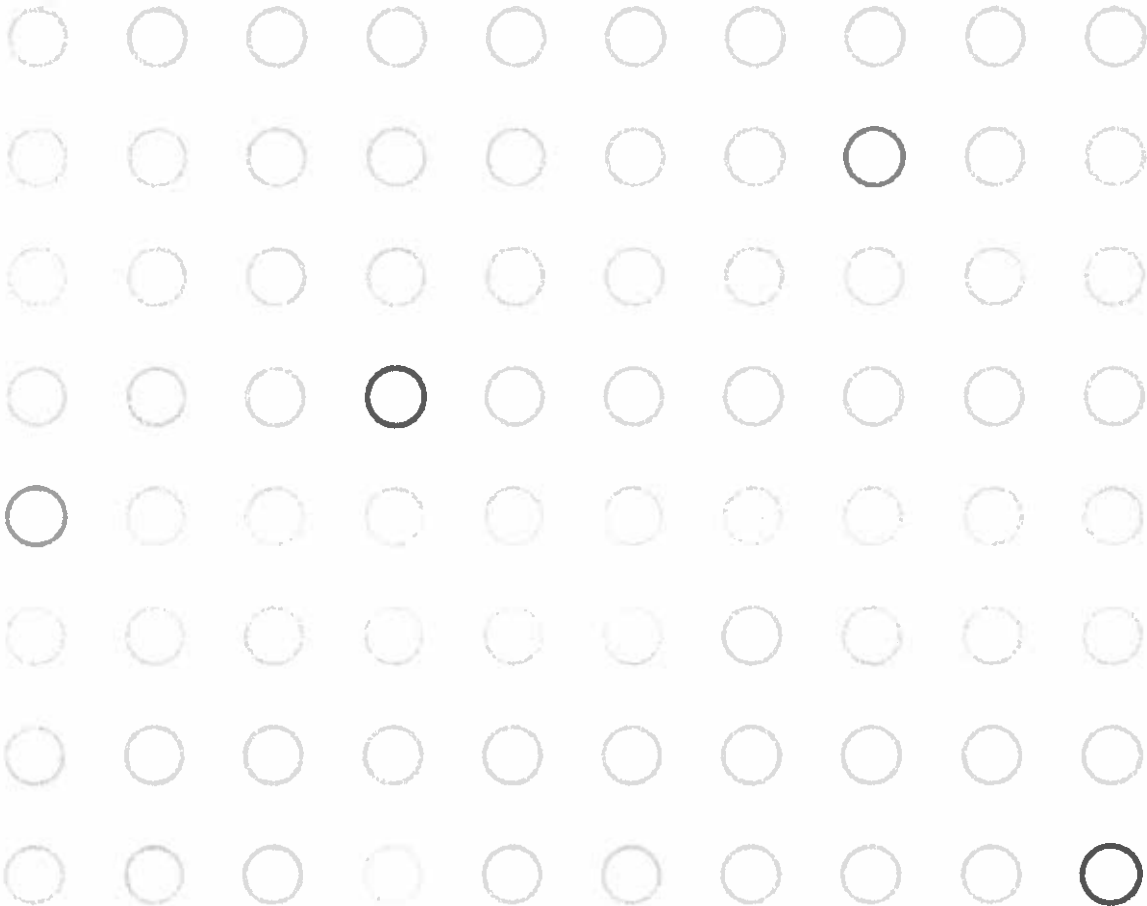
- 11.1 This Viability Report has identified, dependent upon the land values for Knowle, that there are a total of nine individual affordable options for the EDDC Office Accommodation Project based on a BREEAM Excellent basis, and ten individual affordable options based on BREEAM Very Good, with options being located at either Honiton or Cranbrook.
- 11.2 Options considered regarding EDDC remaining on the Knowle in some form do not offer a viable solution financially or in terms of the wider desirable outcomes. This is true for both the refurbishment and new build options. To fund new offices (with the additional opportunity to generate a surplus) the Council needs to relocate.
- 11.3 When considering the affordable Options, there is a significant potential risk to be managed in respect of one of EDDC's land assets, Heathpark, which may not, in the event, be sold for food retail development, thereby not realising the full potential value of the site. Should this occur then the number of options are reduced so that there would be five BREEAM Excellent Options and seven BREEAM Very Good.
- 11.4 It is recommended that prior to a final decision being considered by Council that further enquiries, investigations and discussions / negotiations are carried out into the viable options so that particulars can be better understood and that the issue of food retail at Heathpark developed to enable certainty to be improved.
- 11.5 This further work will require an increase in the current budget from £ 314,354 to £ 409,687, an increase of £ 95,333. The additional costs are attributable to the provision of ongoing Project Management Services, potential additional services from the appointed Commercial Land Agent, Independent Market Research, costs in respect of the provision of Stakeholder Meetings, Legal advice and contingency. It is confirmed that both the original and the further associated costs have been included in the overall Project Costs upon which viability / affordability has been considered.
- 11.6 It is proposed that this further review would be brought to Council at the Meeting on 10 December 2013 so that a final decision can be made.

Submitted by:

Steve Pratten
Senior Project Manager

Davis Langdon, An AECOM Company,
3rd Floor, Portwall Place,
Portwall Lane,
Bristol,
BS1 6NA

Tel: +44 (0) 117 927 7832
Fax: +44 (0) 870 048 7937



10

11

12

13