

Report of the Director of City Strategy

## **Accommodation Project - Update Report**

### **Summary**

1. This report:
  - Provides an accommodation project update which includes the planning decision for the new offices at West Offices, Station Rise; the outcomes from the Office of the Future pilot study; the project's current financial status; the timeframe moving forward and the current level of risk.
  - Sets out the property exit strategy and seeks Members' endorsement of the property exit strategy to vacate De Grey House and 1A and B Swinegate Court East in March and May 2011 respectively.
  - Seeks Members agreement to an increase in the use of the Venture Fund to £2.13m to fund the projects Early Years Deficit.

### **Background**

2. The accommodation project and the move to a new headquarters building is a key component of the council's 'More for York' improvement and efficiency programme. The project remains on track to be delivered within the approved capital budget of £43.8m, over time the new accommodation will make savings measured against the current accommodation and will also achieve the full range of benefits:
3. **For the customer**, in providing a purpose built York Customer Centre that will be fully flexible, accessible and compliant with the Disability Discrimination Act (DDA) and provide the single most important focal point for the new headquarters building. The new customer facility will enable quick, simple and easy access to the full range of council services in one place, in a modern customer environment that supports the delivery of the council's customer strategy. (Customer access principles to be used in the new Customer Centre will be trialled in the current Library Square reception prior to the final move to the new HQ).
4. **For the environment**, the new headquarters will be sustainable in terms of its economic, social and environmental impact. Its central location will support the vitality of the city centre, as well as supporting the existing infrastructure and transport links for customers, visitors and the large volume of staff walking or cycling to work. The new headquarters building is designed to deliver a 70% reduction in carbon emissions compared to the council's current accommodation. In terms of energy efficiency it aims

to be 41% better than our current accommodation and is set to deliver 84% renewable energy, to reduce the future running costs of the building. The proposal is performing well beyond similar existing buildings and due to the highly efficient building services, out-performing typical newly built premises.

5. **For the business**, in providing a modern working environment to support an effective and efficient business operation. Rationalising 16 administrative offices down to four will achieve long-term savings and fund the cost of the new headquarters building, at no additional cost to the residents of York. The new headquarters will provide the potential to share space with partner organisations to support and improve partnership working and support more collaborative working between services, resulting in a more joined-up and efficient delivery to customers.
6. **For the City**, by providing the opportunity for inward investment to the city by releasing a number of important historic buildings which can be sensitively restored and put to more appropriate use such as Blake Street which has undergone a complete refurbishment and is now the new 'Visit York' information centre.
7. At the Executive meeting on 15<sup>th</sup> December 2009 Members approved West Offices, Station Rise as the preferred site for the council's new headquarters building and granted the Director of City Strategy the delegated authority to enter into a contract with Tarras Park Properties York Investors LLP (Tarras) following agreement of the final terms of the Conditional Sale and Development Agreement and the satisfactory resolution of any outstanding items of clarification.

## Progress

8. The outcomes of the clarification process were reported to the Accommodation Project Board in early February 2010 with a recommendation to award the contract to (Tarras). Following board approval the formal notification of the contract award was published on the 8<sup>th</sup> February 2010 and a legal contract between both parties is now in place. The contract is conditional upon the developer achieving planning approval and listed building consent, discharging any planning conditions and procuring a suitable contractor to undertake the works. Once these conditions have been fulfilled under the terms of the contract City of York council will purchase the West Offices site and grant the developer a licence to carryout the works. Following a period of further development of the design for the new headquarters at West Offices a planning application was submitted by the developer in April 2010.
9. At the 24<sup>th</sup> June Planning Committee Members approved (subject to a number of conditions) the plans for the new headquarters building however, listed building consent could not be granted as the application received an objection from the Victorian Society who are statutory consultees. The application for listed building consent has therefore been referred to the Secretary of State for approval, a process that is estimated to take approximately 4 weeks.

10. Subject to receiving listed building consent and the developer satisfying the terms of the Conditional Sale and Development Agreement, work is scheduled to start on site in early November 2010 with a completion date for handover set for the end of September 2012.

### **Property Exit Strategy**

11. The accommodation project property exit strategy is under constant review responding to the timescales for the delivery of the new council headquarters, the changing needs of the council, the expiry and break dates of the lease premises (see annexe1) and the level of vacant space within the existing accommodation.
12. Now that the contract for the new HQ has been awarded and the timescales for council occupation are clearer, the accommodation project team have reviewed the options for the existing accommodation covering the period up to the move into the new HQ.
13. The key aims of the strategy are to:
  - respond to the business needs of the council with a particular regard to the 'More for York' programme and the delivery of high quality customer services
  - provide business continuity throughout the period of the transition to the occupation of the new headquarters building
  - deliver the strategy within the financial model for the accommodation project to achieve the identified savings target and the delivery of the scheme within the approved capital budget of £43.8m
  - provide a degree of flexibility that can support any future opportunity to release or share accommodation prior to the move to the new HQ
  - minimise the disruption to a significant number of staff having to move more than once
14. The completion and handover date for the new HQ currently stands at the end of September 2012, with a phased move in from December 2012. These dates are currently subject to the developer gaining the appropriate listed building consent for the West Offices site.
15. Once approved, should the developers build program be delayed for whatever reason, the council will have the protection of a liquidated and ascertained damages clause which obliges the developer to compensate the council for the costs of the delay beyond the contracted practical completion date (Sept 30<sup>th</sup> 2012).

### **Property Options**

16. On 25<sup>th</sup> June 2010, three property exit options were presented to the Accommodation Project Board for consideration. Each option was assessed in terms of the level of disruption to the business, the financial impact on the project and overall risk to the council. Each option has taken account of any reduced/increased lease costs, additional/reduced running

costs, ITT connectivity where appropriate, space planning and any essential minor works.

**Option A:** Vacate 10/12 and 20 George Hudson Street and exercise the May 2011 lease break clause. Retain all existing premises and where applicable renegotiate leases in line with the HQ completion date. Secure additional accommodation for the majority of the displaced staff (360).

**Option B:** Vacate 10/12 George Hudson Street and exercise the May 2011 lease break clause. Retain all existing premises and where applicable renegotiate leases in line with the HQ completion date. Relocate displaced staff (260) within the council's existing accommodation portfolio.

**Option C:** Vacate De Grey House and 1A and B Swinegate Court East and exercise lease break dates in March and May 2011 respectively. Retain all existing premises and where applicable renegotiate leases in line with the HQ completion date. Relocate displaced staff (120) within the council's existing accommodation portfolio.

### **Options Analysis**

17. Options A and B are capable of being delivered within the projects financial model reported to the Executive in December 2009, however vacant possession of each premises would be required in early January 2011 to accommodate the council's dilapidation obligations. The relocation of approximately 360 and 260 staff respectively would cause major disruption and present risks to the continuity of the business. In the case of option B there is currently insufficient space available within the current accommodation for the relocation of approximately 260 staff. Acquiring additional accommodation within option B would result in a negative financial impact on the project.
18. In terms of option C, whilst the timescale is still tight it is considered to be achievable given the numbers of staff involved. Vacant space has been identified within 20 George Hudson Street and 18 Back Swinegate to accommodate all of the displaced staff, although this will be dependant upon the implementation of a number of modern office principles such as document management, the introduction of new ways of working and desk sharing. This option is capable of being delivered within the projects last reported financial model and will cause the lease disruption and risk to the continued delivery of council services.
19. Option C is the preferred option, and was approved by the board on 28<sup>th</sup> May 2010. It should however be noted that whilst there has been initial positive discussions with the landlords to renegotiate leases on favourable terms, no firm commitment has yet been secured and negotiations are still ongoing.
20. Discussions have taken place with the affected service areas to identify future needs and staff have been informed of the proposals. Further consultation will take place prior to their relocation.
21. The project's property exit strategy will remain under constant review in consultation with the overall 'More For York' improvement and efficiency

programme to ensure that every opportunity to release space early is realised and that space is managed as a corporate resource which will be the sole responsibility of the Property Services Corporate Landlord function.

### **Office of the Future**

22. In preparation for the move to the council's new headquarters, the accommodation project embarked upon a pilot study to set up an 'Office of the Future' to try out new workplace concepts. This working model would enable staff to influence and experience the design and configuration of the office spaces for the new headquarters.
23. It was recognised that to run a pilot before a major office move would be a powerful and very successful way of supporting workplace change. The Office of the Future pilot has been an invaluable exercise in many ways and is considered to have been a success in achieving the outcomes of the project and realising the benefits it set out to achieve. The covering report is available on request from the accommodation project office.
24. The study has enabled the accommodation project team to test the agreed principles of occupation within the new offices, explore the role of the workplace as an agent for change and demonstrate the authority's own vision for its workplace of the future. Not only gaining a better understanding for ourselves, to learn first hand the challenges of establishing a new workspace, but also acting as a catalyst to stimulate and accelerate organisational change, supporting enablers such as document management, IT, HR and the More for York improvement and efficiency programme.
25. The outcomes from the pilot have already helped to inform the future strategy for the new HQ and helped to engage with staff and gauge their concerns and commitment to the forthcoming move.
26. The pilot has also helped to identify the inter-dependency of the components to changing the way we work, such as information/document management, new IT & skills, identifying space needs in a modern office environment and introducing new work patterns and practices. Not forgetting the psychological impact of change for staff, necessitating training, engagement and effective communications.
27. The learning from the pilot has also highlighted that there is a lot of work that needs to be done in advance of the move to the new headquarters in 2012. Both the Office of the Future project team and the pilot participants agree that the time and effort needed should not be under-estimated.
28. With just over two years before the move, the risk of not being ready could result in workarounds rather than planned approaches, resulting in additional cost to the authority, resistance to change and poor morale, impact on service business continuity and not achieving the longer term benefits sooner.
29. This presents a huge challenge, but also an opportunity for services to become "business ready" if they start to adopt the new ways of working

now, helping to smooth the transition from our current environment to the new, especially if moves need to be made in advance of the HQ moves.

30. Although there are constraints to being able to introduce the full range of changes trialled, due in part to the limitations of our existing workspaces, the principles of the Office of the Future can be applied to the way we work if supported by effective communication and guidance on what can be practically applied now.
31. As a result of the study the pilot team are now in the process of developing a toolkit to support service areas and directorates in the process of becoming business ready, in advance of the move to the new HQ.

## **Next Steps**

32. Once listed building consent has been secured, there will be further development of the design and once the developer has discharged the planning conditions and found a suitable contractor to undertake the work, the council will purchase the West Offices site and grant the developer a licence to carry out the works which are currently scheduled to commence in early November 2010. The needs of the council will be reviewed early in the New Year and be fed into the process of space planning and furniture procurement later in 2011.

## **Timescales**

33. The indicative timetable for the overall completion of the new headquarters is as follows:

Listed Building Consent	<b>End July 2010</b>
Further Design Development	<b>June to Oct 2010</b>
CYC Purchase of the West Office Site	<b>October 2010</b>
Contractors Start on Site	<b>November 2010</b>
Commence Review of Earlier Needs Assessment Study Work –Identify Adjacencies	<b>Jan 2011</b>
Commence Space Planning	<b>Mid 2011</b>
Completion and Building Handover	<b>September 2012</b>
Commence Fit Out	<b>September 2012</b>
Commence Move In	<b>December 2012</b>
Full Occupation New HQ	<b>End March 2013</b>

## **Corporate Priorities.**

34. The provision of new accommodation and the consequential improvement in services to our customers will contribute to all of the council's corporate priorities contained within the Refreshed Corporate Strategy approved by Council in April 2009. The project will feed into and be a key component of the council's 'More for York' improvement and efficiency programme.

## **Implications**

### **Financial**

35. The budget for the accommodation project is £43.804 million as reported to Executive in June 2008; this includes the construction budget of £32 million. The final tender from the developers for the delivery of the council's new headquarters is maintained within the £32m construction budget and any additional costs incurred are the responsibility of the developer as long as the council does not change any of the parameters relating to the design brief specification. The costs will be closely monitored throughout the building construction process.
36. On 22<sup>nd</sup> September 2009 it was reported to the Executive that the NPV saving of the accommodation project was £5.14m and the Early Years Deficit stood at £1.69m. The Early Years Deficit is funded by the venture fund reserve, currently at the level of £1.69m. During the final quarter of 2009, the procurement process for the project completed and West Offices was selected. A project Net Present Value (NPV) saving of £4.70 million was reported to Executive on 15 December 2009 for the West Offices development, with an Early Year Deficit (EYD) of £1.93 million.
37. Since that date there have been a number of amendments and corrections to the project model, as well as the inclusion of 09/10 actual revenue costs and 10/11 budget estimates. A further adjustment has been made to reflect the fall in interest rates, which means that interest income earned on capital receipts will not be available to offset the cost of borrowing going forward, whilst actual capital receipts will be immediately used to fund increasing capital expenditure on the construction workstream. These changes have resulted in a revised NPV saving of £4.46 million and an EYD of £2.25 million.
38. The exit strategies for Options A, B and C have been compared against these revised options. The table below shows the movement in NPV savings and EYD from the West Offices Model presented to Executive on 15 December 2009, the updated West Offices Model presented here and Options A, B and C.

	<b>NPV saving £m</b>	<b>Early Years Deficit £m</b>
West Offices– Executive 15 Dec 2009	4.70	1.93
<b>West Offices – Executive 20 July 2010</b>	<b>4.46</b>	<b>2.25</b>
Option A – Exit 10/12 & 20 GHS	4.47	2.14
Option B – Exit 10/12 GHS only	4.83	1.66
<b>Option C – Exit De Grey House &amp; Swinegate Court East</b>	<b>4.53</b>	<b>2.13</b>

39. Option A is the closest in NPV terms to the West Offices Model (20 July), whilst Option B shows the greatest improvement to the EYD (- £0.59 m). Under Option A the EYD is affected by the requirement to rent additional short-term office accommodation, whilst there is a further risk under Option B that there will be insufficient vacant accommodation to relocate the number of staff involved.
40. Whilst there are still risks around the timescale in Option C, these are considered manageable and sufficient vacant space has been identified to accommodate displaced staff, subject to the introduction of more modern ways of working. The preferred Option C shows a minor improvement in

NPV saving compared to the West Offices Model (20 July) (+ £0.07 m) and also an improvement in the EYD of £0.12m.

41. The increase in the EYD from £1.69m reported on 22 September 2009 to £2.13m can be funded from the venture fund reserve. As at 31 March 2010 the balance on the venture fund reserve stood at £2,219. It is suggested that Executive recommended to Council that the following profile for use of the Venture Fund be approved:

	2010/11	2011/12	2012/13	2013/14	Total
	£000	£000	£000	£000	£000
Accom Project 20/07/10	201	311	1,424	191	2,127

42. Over a five year forecast to 2014/15 the balance of the venture fund will be £825k. This takes into account all movements of the current commitments of the venture fund including the reserve being used and also repayments made. Over the five-year period the lowest balance in the venture fund is £642k in year 2012/13. In future years, in line with the estimated NPV savings of the Accommodation Project, these savings can refund the venture fund.
43. In accordance with the current estimates and the projection of the NPV savings, the venture fund will be repaid between 2014/15 and 2018/19 for the EYD. In addition, £1,092k reserves from the venture fund were approved by Executive on 22 September 2010 to fund the abortive costs associated with the Hungate site. These costs can be refunded to the venture fund after the EYD by 2019/20.

*It should be noted that the overall funding position of the project will continue to fluctuate in relation to timing and value of capital receipts and will impact on borrowing accordingly. The Accommodation Project remains viable in accordance with the affordability indicators, with the NPV savings remaining positive and the Venture Fund revenue reserve being sufficient to cover the early years revenue deficit*

### **Human Resources**

44. There are no Human Resources implications

### **Equalities**

45. A full set of Equality Impact Assessments (EIA's) have been produced for the Accommodation Project. Liaison with the Corporate Equality and Inclusion Team through the project's accommodation user group is ongoing with regular progress reports to both the Equalities Advisory Group (previously SWIG) and the Staff Equalities Reference Group to ensure a corporate approach and effective communication is in place at all times. Throughout this process a number of key points and issues have been raised all of which have been considered and feedback provided.

### **Legal**

46. It is vital that the project follows good procurement practice and legal requirements that underlie that practice and decisions are made in



accordance with key EU principles (equal treatment, transparency, proportionality) to avoid risks of challenge and to achieve best outcome.

### **Crime and Disorder**

47. There are no Crime and Disorder implications.

### **Information Technology**

48. There are no Information Technology implications.

### **Property**

49. The property implications are detailed in this report. It should be highlighted that the implementation of the property exit strategy is dependant on a successful outcome to current negotiations with landlords on amending termination dates on a number of leased properties.

### **Risk Management**

50. The accommodation project is managed within a project management framework adopting the principles of the well-established PRINCE 2 project management methodology. This was a key component of the accommodation project Business Case approved by Members in November 2005.
51. The major controls for the project include the approved business case, project plan, risk register, issues log, exception reports and end of stage assessments. The project risk register is maintained on Magique, the council's corporate risk reporting system and this provides full reporting and traceability of the project's risks. The project risks are reviewed by the project team weekly and reported to the accommodation project board on a monthly basis. The projects risks are also reported 3 monthly via the council's Key Corporate Risk update. The project's top ten risks are included in confidential annexe 2.

### **Recommendations**

52. Executive are asked to:
- Note the content of this update report.
  - Endorse the property exit strategy and the release of De Grey House and 1A and B Swinegate Court East on the first break clause dates of March and May 2011. Relocating the staff affected to within the existing accommodation portfolio.
  - Recommend to Council an increase in the use of the Venture Fund of £435k from £1,692k to £2,127k to fund the Early Years Deficit as set out in paragraph 41.

## Contact Details

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### Chief Officer Responsible for the report:

Bill Woolley  
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Report  
Approved



Date 7<sup>th</sup> July 2010

### Specialist Implications Officer(s)

Financial

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**Wards Affected:** Acomb, Clifton, Fishergate, Guildhall, Heworth,  
Heworth Without, Micklegate

**For further information please contact the author of the report**

### Background Papers:

22<sup>nd</sup> November 2005 Executive - Accommodation Project - Business Case  
3<sup>rd</sup> February 2009 Executive - Accommodation Project - Update Report  
14<sup>th</sup> April 2009 Executive - Accommodation Project - Update Report  
21<sup>st</sup> July 2009 Executive - Accommodation Project - Update Report  
15<sup>th</sup> December 2009 - Accommodation Project - Tender Award  
4<sup>th</sup> February - Accommodation Project - Project Board Report  
28<sup>th</sup> May - Accommodation Project - Project Board Report

### Annexes

**Annex 1** – Leased Accommodation Information

**Exempt Annex 2** –Top Ten Project Risks