

WIRRAL COUNCIL

CABINET - 24 JUNE 2010

REPORT OF THE DIRECTOR OF LAW, HR & ASSET MANAGEMENT

OFFICE ACCOMMODATION

1. EXECUTIVE SUMMARY

1.1 This report presents the business case produced by EC Harris for the rationalisation of the Council's office accommodation. It identifies related issues that require further consideration and seeks guidance from members on the preferred way forward.

2.0 BACKGROUND

2.1 On 9 July 2008 Cabinet considered a report of the Chief Executive setting out an approach to a strategic review of the Council's assets. Administrative accommodation was to be included within that review. The Council's current Asset Management Plan aims to reduce its ownership and occupation of office and administrative accommodation, but the report recognised that further progress needs to be made. At that date the report identified 42 administrative buildings across the Borough.

2.2 Cabinet agreed the proposed approach and required that the review of administrative buildings begin immediately. As part of the agreed approach there was to be an exploration of how the introduction of agile working could help reduce the total amount of space required in administrative buildings. Consideration was also to be given to whether a business case exists to replace existing office accommodation with a new purpose built facility.

2.3 An update on the Strategic Asset Review (SAR) was given to Cabinet on 16 October 2008, when it was noted that the future options for the Council's administrative accommodation would have the potential for synergy with existing or proposed larger regeneration schemes in the Borough.

2.4 On 27 November 2008 Cabinet considered a report of the Chief Executive entitled Transforming Wirral – Strategic Asset Review. The report proposed that the Council could – subject to certain conditions being satisfied - achieve at least a 20 per cent reduction in its own accommodation costs by 2011. It made clear that this would mean fewer office buildings which would be achieved through greater use of open plan accommodation; a reduced average floor space per employee; increased desk sharing; and more flexible working (which is also likely to reduce absence levels and thereby further improve efficiency and value for money). The intention was through these measures to save over £1 million a year by the 2011/12 budget.

- 2.5 A process of public consultation and Council scrutiny of the SAR proposals followed. Cabinet at its meeting on 15 January 2009 then resolved that the office accommodation aspects of the Strategic Asset Review be implemented and officers be asked to accelerate the process of making savings from the rationalisation of the Council's office accommodation.
- 2.6 Subsequent reports to Council Excellence Overview & Scrutiny Committee have provided an update on progress and on 17 March 2010 the committee resolved that the Strategic Asset Review - Office Rationalisation Project form part of the Committee's work programme for 2010/2011.

3.0 APPROACH TAKEN TO RATIONALISATION

- 3.1 Following the final decisions on the SAR, a co-ordinated approach to office rationalisation was implemented in line with corporate project management principles. The office rationalisation project was integrated into the Council's Strategic Change Programme and is monitored by the Strategic Change Programme Board.
- 3.2 EC Harris were appointed by competitive tender as external specialists to support the office rationalisation project. One of their key roles (referred to in paragraph 4.1 below) was option appraisal and the delivery of a business case for future office need, with a recommended way forward. Work undertaken within the project using baseline data showed that some buildings would be more straightforward to vacate and demolish than others, thus realising quicker savings. However, in the event of a business case for a multi-site approach to meet future need, those same buildings may offer greater flexibility in use than others. Agreement of a business case for the Council's future office need will clarify which existing buildings are to be emptied and sold and over what timescale.
- 3.3 Whilst the business case has been in development, work has continued on the review, vacation and disposal of a range of buildings identified in the original list of 42 administrative assets but which have been agreed to be outside the scope of the business case.
- 3.4 The business case is now presented for members' consideration, and is attached to this report.

4.0 REPORT AND BUSINESS CASE

- 4.1 EC Harris were engaged to support the office rationalisation programme by providing strategic advice. They were required to:
- Identify and examine options for future office provision
 - Identify and examine delivery options
 - Deliver a business case to meet the Council's future office needs and, in particular, answer the question as to whether a business case exists to replace existing offices with a new purpose built facility.
 - Recommend a way forward

4.2 There is a wide range of potential options, but six options are considered in detail, covering a range of possible solutions. At one extreme a 'do minimum' option would see the retention of all existing stock. At the other extreme would be the vacation of all existing facilities and their replacement with a complete new build. Between these extremes the four remaining options all retain some existing buildings.

4.3 The report reaches the following conclusions

- Any of the 5 options beyond 'do minimum' will deliver savings and operational efficiencies.
- Continuing as we currently operate ('do minimum') is not recommended
- The savings achievable are based on stated assumptions within the report and will vary as inputs and assumptions are varied. The timing of savings also varies depending on the option chosen.
- The recommended option (Option 3) produces discounted annual revenue savings to the Council in excess of £800,000 p.a. over the model period of 25 years. It should be noted that EC Harris have adopted a modelling assumption of a 10% reduction in staff numbers over the 25 year period under consideration. Additional but at this stage unquantified savings are also identified. Figure 6.2 within the report illustrates the timing of savings over the modelling period.

4.4 The report considers the configuration of future office provision rather than the location (i.e. the quantity and form of future provision, not where new provision will be built).

4.5 It should be noted that the report is relatively 'high level'. It is intended that the detail will be developed as the project moves forward through a gateway review process and into delivery.

4.6 All options were appraised from the twin perspectives of the cost savings and qualitative benefits they would deliver to arrive at the most economically advantageous solution. The qualitative benefits are those which have been judged to best achieve corporate and organisational priorities. Option 6 (total new build) shows the lowest cost but for reasons set out in the report it is judged to present higher risks and be less acceptable than solutions mixing new build and refurbishment of core retained assets. It may potentially be less flexible and less responsive to future needs than a mixed solution. When its qualitative score is added to the financial score it ranks fourth of the six options.

4.7 A limited group of people has been involved in the qualitative scoring, and EC Harris's view is that the choice between options 3, 4 and 5 is finely balanced. Whilst Option 3 is the favoured option they believe that further work is required to consider all the information in order to arrive at the correct decision as between options 3, 4 and 5. If further work is not done their view is that the Council would be undertaking a very important decision on the basis of a fine margin.

5.0 ISSUES RAISED AND FURTHER COMMENTS

- 5.1 Office rationalisation is not undertaken in isolation but sits within the broader corporate Change Programme. It is interlinked with other strands and to radically reduce buildings stock we need to change ways of working. The range of options between the two extremes allows for flexibility in future as the Council and its requirements for accommodation change. On this basis – and subject to being satisfied with the business case – the Council can move forward whilst uncertainties remain.
- 5.2 EC Harris approached all LSP partners as part of their study but no major shared accommodation opportunities were identified at this stage. However locality based working is developing strongly across the borough, and the potential impact of this on a central requirement will be taken into account as a preferred option is developed.
- 5.3 A principal driver in developing the business case has been on delivering minimum savings of £1m per annum. This will only happen with the modernisation of the working environment and working practices. Re-design and investment in the workplace will be required to deliver the key metrics around space use. Within the wider rationalisation project the Council's policy framework to support agile working has been reviewed. Revised policies have been shared with Trades Unions and will be the subject of further discussion with them.
- 5.4 Whilst the business case focuses on back office functions some one stop shops are in buildings affected by the options. Change at these points links to the Customer Contact Strategy in the Change Programme. There may be opportunities here to review existing asset provision with a neighbourhood focus in line with a 'Total Place' approach.
- 5.5 The report identifies the potential for savings in facilities management (FM) costs. As part of the overall office rationalisation project work is under way to define the potential scope of this. FM for offices forms part of a wider FM service across the Council, and the greatest opportunity for savings will come from reviewing services across the authority. This has begun and will be the subject of a further report. There may also be opportunities to develop a shared services approach with partners, and these will be explored.
- 5.6 Cabinet received a report on 18 March 2010 from the Director of Finance on future arrangements for the Council's data centres. It resolved that a further report be presented to Cabinet following the outcome of the current review of office accommodation. The Council's two existing data centres need upgrading or replacement. Both are in buildings that are identified for vacation in all the options presented by EC Harris except for "Do minimum". Re-provision of accommodation (but not for hardware, software and data migration) has been included in the financial model for the main data centre. A review of the consultant's recommendations for future data centre provision will be required in the light of the chosen option for future administrative accommodation.

- 5.7 The “Do minimum” option gives a baseline against which the benefits of the other options can be compared, and assumes continued occupation of the existing buildings in the current manner. A variety of further options could be modelled which, without a new build element, would intensify the use of the most flexible of the current buildings and seek to free up space in others. Possible options on this basis are not recommended by EC Harris and have not been appraised, as they are considered to be less supportive of transformation and organisational improvement. Such options would continue the existing incremental approach to rationalisation.
- 5.8 Where accommodation is vacated in options 2 to 6 it is assumed that the Council will dispose of it, and no assumptions are made as to alternative uses. It should be noted that Birkenhead Town Hall, Wallasey Town Hall and the Conway Centre are listed buildings.
- 5.9 EC Harris identify the opportunity for the Council to use a requirement for a new office development to ‘kick-start’ a wider regeneration scheme within the Borough. Depending upon its location it could also support the regeneration of the wider Birkenhead Town Centre. If the preferred option includes a new-build element then the location and delivery mechanism for this will be the subject of further more detailed evaluation. Negative impacts from withdrawal from existing buildings are considered to be low, but no formal evaluation of these has been undertaken
- 5.10 Upgraded ICT provision will be essential to support new ways of working. Cabinet has separately considered and approved reports that are preparing for necessary changes. In addition to the future of the Council’s data centres, to which reference is made above, Cabinet on 14 January 2010 approved actions to revise the approach to infrastructure and desktop equipment provision. In addition, Cabinet on 27 May 2010 agreed to enter into a new contract for the provision of a replacement telecommunications network. Arrangements have therefore been put in place to move forward with appropriate IT to support rationalisation.
- 5.11 There are some building specific issues which need to be addressed whichever option is chosen for future office provision. These are summarised below:
- 5.12 Cheshire Lines – There is vacant accommodation next to the Council’s existing offices which may be suitable for expansion. It is recommended that discussions be held with the Council’s landlord to explore opportunities this may offer in the context of a future strategy.
- 5.13 Acre Lane – The report identifies the need for a separate review of this facility. It is recommended that this be undertaken and that options for future provision should include consideration of potential links to partners’ proposals and other opportunities for further and higher education provision in the Borough.
- 5.14 Birkenhead Town Hall – Option 4 allows for the re-use of the former town hall. Cabinet approval has previously been given to support the Hamilton Partnership in the development of their proposals for transfer of the building. Discussions have been taking place with the Partnership and it is intended to report back to Cabinet

in July on the outcome of their work. A revised proposal was received from the Partnership on 15 June 2010 and is now being considered.

5.15 Westminster House – options 1 to 5 in the business case propose the continued occupation of this building. If retention of Westminster House is agreed a scheme and estimate report will be brought to a future Cabinet meeting seeking approval of proposals to refurbish the building and modernise the internal environment to allow for intensification of its use.

6.0 RISKS

6.1 The rationalisation of the Council's offices will form a major programme linked to other aspects of the corporate change programme. A comprehensive approach to risk management will be developed within the delivery programme. The EC Harris report includes an initial 'High Level' identification of risks and is reproduced below:

Risk	Description
Project not progressed for internal reasons	Persist with do minimum option incurring steep maintenance costs with no benefits
Organisational design not developed to support the preferred asset configuration	New asset and refurbished accommodation not used to the optimum to provide minimum amount of space
7:10 workspace to staff ratio not achieved	Inability to use the space efficiently
Suitable site not identified	Need to reconfigure the preferred solution or incur additional cost in site acquisition
Preferred option becomes unaffordable	2011 settlement makes the capital investment a higher risk
Flexible working methodology not agreed	Outputs from Work stream 3 not adopted
IT support to agile working not adopted across the portfolio	Lack of efficiency across the service functions and unable to derive full benefit from the building; improvised use of space
Headcount does not reduce by 10%	Additional costs incurred as identified in the sensitivity model
Planning permission not obtained for the preferred site	Alternative site options to be considered or delay to address planning conditions
Business continuity risks emerge during the transitional period	Risks particularly apparent during the transfer and decanting period
Strategy delayed because of individual service issues	It is important to look at the whole picture rather than risk allowing individual components to determine the strategy.

7.0 CONCLUSIONS

7.1 The business case now received advises that the provision of the Council's administrative accommodation in the present estate with the current level of expenditure is unsustainable. It recommends that the Council should pursue Option 3 for future provision which would retain a small number of core assets and provide the balance of accommodation in a new development the location of which has yet to be determined. Option 3 is recommended as being the most economically advantageous solution.

7.2 This option would deliver discounted average revenue savings to the Council (compared with 'do minimum') in excess of £800,000 per annum over the model period of 25 years, plus further as yet unquantified savings. These savings are

dependent upon stated assumptions in the report, including a 10% reduction in staff numbers.

- 7.3 EC Harris recommend that, because three of the modelled options are so closely ranked, further work should be done to confirm Option 3 as the agreed way forward, and this recommendation is endorsed.
- 7.4 Once a preferred option is confirmed further detailed work would be undertaken to develop a final business case as the project moves forward. Separate detailed work is also required to address the related and building-specific issues outlined above so that the maximum advantage is taken of opportunities arising from the rationalisation project.
- 7.5 Following confirmation of the preferred option the existing project structure and project management arrangements will be revised to ensure that the agreed rationalisation programme is delivered.

8.0 FINANCIAL IMPLICATIONS

- 8.1 The business case has used current revenue expenditure budgets on the buildings in-scope together with the Council’s own property condition data to model the various options.
- 8.2 The buildings that have been reviewed have an identified maintenance backlog of £8.9m, plus a further identified life cycle maintenance requirement of £8.3m.
- 8.3 Potential savings from 6 options are modelled. The business case shows an average saving for the preferred Option 3 of in excess of £800,000 per annum over the model period of 25 years, plus further as yet unquantified savings. These savings are dependent upon stated assumptions in the report. The business case includes sensitivity analysis across all the modelled options and identifies consequent variations in the estimated savings.
- 8.4 The business case also identifies additional but currently unquantified savings that the project can realise (for example savings on mileage costs). Significant non-financial benefits are also important drivers of the business case, for example organisational efficiencies through co-locating directorates and reducing the current dispersed operating model; reduced staff turnover and absenteeism; improved services to customers; reduced carbon emissions.
- 8.5 A summary of items included and excluded from the financial model is given in the table at figure 6.5 within the business case. This is reproduced below.

Included	Excluded
Capital cost of new build (incorporating construction, fees and contingencies with allowance for BREEAM excellent)	Any demolition of surplus buildings
Refurbishment of retained accommodation	VAT (assumed recoverable)
All maintenance costs for retained buildings (including backlog)	Information Technology (“IT”) (budgeted separately)

Included	Excluded
Facilities Management ("FM")	Dispersal costs (ie staff allowances for change of location) (assumed neutral)
Utilities	HR savings
Business Rates	FM efficiency savings
Income currently generated by the existing building portfolio	Car Park income
Ongoing life costs of new building	Re-provision of One Stop Shops additionally to the replacement of the OSS at Conway Centre
Building Insurance	Property sales and other capital receipts
Car parking allowance for new build	Acre Lane modifications
Replacement of OSS at Conway Centre	Removals
Data centre (in separate location)	Decanting costs
Service Charges	Mileage savings (fuel and time)
Security costs for empty Town Halls	Storage
	Site acquisition costs

8.6 Other key assumptions used for financial modelling are as follows:

- A 2 year construction period has been modelled for the new build element in options 2-5 and a 3 year construction period for the substantially larger option 6.
- All new build construction costs have been prudentially borrowed, with a payback period of 10 years from the 1st year of construction.
- Inflation for construction costs has been projected to the 2nd year of construction.
- New build areas have been worked out on the area required to accommodate staff that haven't been housed in the retained/refurbished buildings. 6.5 m2 has been allocated to each desk and a ratio of 10 people to 7 desks has been used on average.
- Refurbishment of Westminster House has been taken to be funded by Wirral BC and is not prudentially borrowed.
- All refurbishment (inc Westminster House and refurbishment involved in options 2 & 4) have been split over a 2 year period.
- Backlog maintenance and ongoing repairs for both existing estate and new build, have been prudentially borrowed with a 10 year payback.
- All costs are assumed to increase in line with inflation at 2.5%
- Cheshire Lines has been assumed to be occupied and continued to rent over the 25 year period for options 1-5. Option 6 continues to rent until the end of the lease but is not occupied.
- Rate of increase in rent has been taken to be in line with inflation.
- Existing buildings have been modelled to keep their existing car parking with zero cost.
- Car parking costs have been split over a 2 year construction period and have been assumed to be financed by Wirral BC.
- All new builds are to receive new furniture.
- Where existing buildings are reconfigured, they have received new furniture.
- For energy consumption an increase of 7% has been made to the capital cost to cover the cost of building in sustainability.
- This is modelled to produce savings of 30% compared to current costs.

- 8.7 Investment in IT and telephony has not been costed into the option appraisal on the basis that the Council has identified separate funding for this. IT will be a substantial cost in reconfiguring administrative accommodation and will need to be modelled in detail.
- 8.8 As noted above the SAR sought to achieve a revenue saving of over £1m per annum from administrative accommodation by 2011. Whilst indications from the business case are that overall savings on this scale are achievable it is clear that they will not be realised by that date. Once a preferred option for future accommodation is agreed a revised analysis of achievable savings will be reported to Cabinet.

9.0 STAFFING IMPLICATIONS

- 9.1 All administrative staff will potentially be affected by the rationalisation of the Council's administrative estate and the implementation of new ways of working.
- 9.2 The design of new and refurbished offices together with new working arrangements will improve the quality of the workplace for staff.
- 9.3 Effective communication and staff engagement are key to successful large scale workplace change, and a comprehensive communication strategy will be developed for the project. Communication about the overall office rationalisation project will be dealt with in the wider context of the Change Programme through the Strategic Change Programme Board. For team and service office redesigns and relocations, a more detailed communications plan is being developed.
- 9.4 Full engagement will take place with trades unions, and discussions have already begun on revised policies to support agile working.

10.0 EQUAL OPPORTUNITIES IMPLICATIONS

- 10.1 An equality Impact Assessment has been completed for the overall rationalisation project, and a copy is attached to this report. More detailed assessments will be undertaken as workplace changes are implemented.
- 10.2 Refurbishment of existing accommodation and new build will allow the development of more accessible environments than exist in current accommodation.

11.0 COMMUNITY SAFETY IMPLICATIONS

- 11.1 None arising directly from this report.

12.0 LOCAL AGENDA 21 IMPLICATIONS

- 12.1 Refurbishment of existing accommodation and new build will allow the creation of a more sustainable administrative estate with lower environmental impact. Other benefits will be realised through new working arrangements, for example a

reduction in business mileage and CO2 emissions due to the consolidation of offices and an increase in agile working.

13.0 PLANNING IMPLICATIONS

13.1 None arising directly from this report, although it should be noted that within the business case options Birkenhead Town Hall, Wallasey Town Hall and the Conway Centre are listed buildings.

14.0 ANTI POVERTY IMPLICATIONS

14.1 None arising directly from this report.

15.0 HUMAN RIGHTS IMPLICATIONS

15.1 None arising directly from this report.

16.0 SOCIAL INCLUSION IMPLICATIONS

16.1 None arising directly from this report.

17.0 LOCAL MEMBER SUPPORT IMPLICATIONS

17.1 This report will be of interest to all members.

18.0 BACKGROUND PAPERS

Cabinet 9 July 2008	Strategic Asset Review
Cabinet 16 October 2008	Transforming Wirral-Strategic Asset Review
Cabinet 27 November 2008	Transforming Wirral-Strategic Asset Review
Cabinet 15 January 2009	Transforming Wirral-Strategic Asset Review
Council Excellence Overview & Scrutiny Committee 17 March 2010 – Office Rationalisation Project Update	

19.0 RECOMMENDATIONS

It is recommended that:

19.1 The report be noted.

19.2 Cabinet identifies its preferred approach to the provision of the Council's administrative accommodation in the future, having regard to the business case prepared by EC Harris.

19.3 The Director of Law, HR & Asset Management be instructed to carry out further work on the related and building specific issues identified in the report and to report further on these to Cabinet as appropriate.

19.4 The Director of Law, HR & Asset Management reports to a future meeting of Cabinet on the revised project structure required to deliver the preferred solution

for future accommodation and the revised amounts and timing of savings that it will produce.

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