

MEDWAY COUNCIL

CABINET

5 JUNE 2007

CIVIC HEADQUARTERS

Portfolio Holder: Alan Jarrett, Finance

Report from: Neil Davies, Chief Executive

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1. Summary

1.1 This report examines the options for the future location of the Council's administrative functions.

2. Decision Issues

2.1 Cabinet is asked to consider the options set out in this report and to decide whether to recommend to full Council that they proceed with the purchase of Gun Wharf for a new civic headquarters.

2.2 This decision is outside the budgetary framework and therefore can only be agreed by full Council.

3. Background

3.1 Council departments are currently located in different buildings across the Borough. This is the result of the accommodation portfolio inherited in 1998, when Medway became a unitary authority. It has been a long established aim of the Council to centralise its main administrative offices in, or close to, Chatham to ensure comprehensive delivery of services from one single point. This aim was included in the Council's 2003 Asset Management Plan, the Chatham Centre and Waterfront Development Framework and also in the Property Strategy, adopted last year.

3.2 Work on considering the options for a new civic headquarters was undertaken by Bisset Adams in 2004, and this study recommended that the Council consider acquiring suitable freehold sites. A further options appraisal was carried out by Donaldsons on behalf of the Council in relation to building a new civic headquarters in Chatham, and this is referred to below.

4. Benefits of a Civic Headquarters

4.1 Any relocation of the Council's administrative functions must deliver the following benefits: -

- Reduced revenue. The existing running costs would need to be substantially reduced by relocating to another site, in order to support the financial reasons for any move. In addition, the Council's Property Strategy has a key aim that we should minimise the revenue impact of operational property by occupying freehold property wherever possible.
- One Council, offering more integrated services for the public, supporting customer first and first point of contact. The Customer First programme is transforming the way we deliver services for our residents with localised contact points providing services in ways, places and at times that suit our customers. We have seen improvements in customer satisfaction (now at 73%) and the percentage of customer contact dealt with on a "one and done" basis is now over 80%. We provide a wide range of services and work in partnership with the Police - Rainham Contact Point was the first joint Council and Police one stop shop in the county. Locating our administrative functions on one site would need to provide us with an opportunity to support customer first, allowing us to relocate more front line services into customer-centred sites.
- Provides an opportunity to rationalise the property portfolio. The Council's aim is to significantly rationalise the number of operational properties by co-locating services both internally and with partner organisations. Property assets play a crucial strategic role in achieving corporate and service objectives, and are our second largest expenditure, after staff. Rationalising the property portfolio to make the best and most efficient use of property assets is a key priority for the Council. The location of the council's operational properties has a far reaching influence, not only in achieving service delivery objectives, but also in the wider economic and regeneration context. Any future purchases or disposals of operational property must be seen to support these objectives.
- Cultural change. The Council is working to bring about a culture change around the provision of its services by staff, improving communications and breaking down the barriers between departments. Alternative methods of service delivery are currently being explored, including flexible working, hot desking and homeworking. These alternative methods of working will bring the following benefits to the Council: -

- Reduced office space and costs
- Reduced travel costs
- Increased productivity (as evidenced by research)
- Positive recruitment and retention
- Improved motivation
- Supporting Equal opportunities policy.

Any staff relocation should be able to deliver an environment which supports the above, by offering areas that are suitable for hot desking and flexible working. We want to implement changes that we have been talking about for some time, e.g. greater working across teams; greater understanding/engagement in our priorities; flexible working; paperless offices; create a culture of innovation and creativity and celebrate the importance of our staff, developing a sense of pride in our council.

- Provides a civic heart for Medway to be proud of. Increased numbers of staff should add to the economic vitality of Chatham. It will also be a boost to the existing development plans for this retail centre and it will take approximately 10 minutes to walk to the Pentagon Centre along the Waterfront, therefore Chatham is very accessible. In addition, there is also the possibility of development on the existing Civic site which will create a regeneration opportunity and economic boost for Strood.

5. Linkage to Property Strategy and Longer Term Capital Investment Aspirations

- 5.1 Re-locating to one civic headquarters was an integral element of the Council's property strategy that was approved by Cabinet on 4 April 2006. This contained a number of key projects including inter alia: the development of the waterfront regeneration sites, Medway innovation centre and enterprise hub promoting employment and skills opportunities, customer first demonstrating our commitment to localised contact points, investment projects to support the older persons plan. As indicated earlier this list of projects also included the need to centralise the council's administrative buildings.
- 5.2 The strategy reflected certain fundamental principles designed to make the Council's assets work more effectively. More specifically it aimed to: minimise the revenue impact of operational property by occupying freehold property wherever possible; identify buildings that are not fit for purpose (either operationally or strategically); rationalise the existing portfolio to avoid unnecessary building repairs and maintenance costs, and expensive running costs; seek opportunities for partnership working or shared services; and select assets surplus to requirements that can be disposed of to generate capital receipts to invest in front line services. The strategy was based on efficiency principles to avoid expensive costs but also to make our existing buildings work more productively – in essence to make our assets sweat.
- 5.3 The proposals contained in this report are a key plank of the property strategy, indeed if the proposal is approved, it will act as a catalyst for future property rationalisation. Indirectly it will also support the waterfront regeneration schemes since it will certainly add extra

economic vibrancy to Chatham, but also provide a redevelopment opportunity for Strood.

6. Options Available

6.1 The Council has a space requirement of 120,000– 150,000 sq. ft. This would allow us to relocate all our administrative functions to one building, based on a space requirement of 7-8 sq. metres per person, which is within national guidelines. This also includes allowances for flexible working, hot desking etc.

6.2 The functions that the Council would seek to relocate in an administrative building include planning, property, finance, legal, human resources, ICT and the management team. It also includes the strategic areas from the education, older persons, housing and children's services. The number of staff that serve these areas is approximately 1100, and based on the above space requirements, the options available to the Council are:-

- Remain in its existing buildings
- Build a new civic headquarters
- Freehold purchase
- Leasehold purchase

These options are set out below, and are explored in detail in the reports from GVA Grimley attached as Exempt Appendix 1.

6.3 Remain in the existing buildings

6.3.1 An appraisal of our buildings identified that the Council's freehold properties would require significant investment in backlog maintenance and without this investment, that the buildings are unlikely to be economical to occupy. Even after that investment, ongoing maintenance and refurbishment needs will continue to be a significant financial burden.

6.3.2 There is a considerable backlog of maintenance at many of the council buildings and this is especially so at the Civic Centre where the cost is currently assessed as £3.6 million. In addition, the costs of the backlog for Municipal Buildings is in the region of £820,000. These figures are based on surveys carried out in February 2007.

6.3.3 The running costs for the existing buildings total £2.8million p.a., without the cost of repairs. This is in respect of the Civic Centre, Compass Centre, Kingsley House, Municipal Buildings and Riverside One. The financial model for remaining in the existing buildings is set out in exempt appendix 2. If the Council were to remain in its existing buildings, it would clearly not receive any of the benefits set out in this report, and it would lose the potential revenue savings of £0.944 million per annum in respect of running costs. It would therefore lose an

opportunity to reinvest these savings into the delivery of front-line services.

6.4 Build a new civic headquarters

6.4.1 Advice received from Donaldsons in 2004 indicated that the cost of a new build in Chatham which would meet the Council's space requirements would be in the region of £41 million (excluding site acquisition costs). Further advice received from GVA Grimleys in 2007 concurs that this figure is still likely to be correct, and concludes that the Council would have to locate a suitable site and acquire it by private treaty, and that the build period is likely to be in excess of two years.

6.5 Purchase a freehold site

6.5.1 Due to the size of the Council's space requirements, there are very few buildings in Chatham that meet its needs. The two identified are the former Colonial Building ("Big Blue") and the former Lloyds Building ("Gun Wharf").

Big Blue:

6.5.2 Colonial House is a modern office building originally constructed in the early 1990s by Costain on behalf of Colonial Mutual Insurance. It is located at Chatham Maritime overlooking St. Mary's Island.

6.5.3 The building is set on four floors with three floors of offices above a semi-basement car park. The gross internal floor area is approximately 14,600 sq m (157,000 sq ft). The net area is 12,818m², i.e. the gross area less storage, atrium, conservatory and reception.

6.5.4 Construction is of red brick elevations with aluminium windows and decorative stonework, and the majority of roofs are pitched with slate coverings. Internally the building is divided into 14 zones, the centre piece of each being an atrium, one of which extends full height and forms the main entrance. Externally there is car parking for approximately 690 cars of which 215 are within the basement area.

6.5.5 The building is approached by a curving vehicular ramp up to the main entrance level, and there is a separate service entrance located below.

6.5.6 The attached GVA Grimleys report contains more details, but does highlight the following beneficial features: -

- Space of 157,000 sq. ft
- Parking for 692 cars
- Air conditioning & reasonable specification.

It does however have the disadvantage of being outside Chatham town centre, it is leasehold and does not have any significant development potential on the site.

Gun Wharf

- 6.5.7 The Gun Wharf building was commissioned by and built for Lloyds of London in the mid 1970s as one of their back offices supporting their City of London headquarters. Lloyds and their supporting service providers have occupied the building up until their relocation last year to new premises at Chatham Maritime.
- 6.5.8 Gun Wharf is located a few minutes walk to the north of Chatham town Centre and occupies a site extending to eight acres, with an extensive riverside frontage to the Medway. The accommodation, arranged over five levels, extends to approximately 13,000 sq metres (140,000 sq ft) and mostly comprises office space, with ancillary meeting rooms, catering and storage. Accessed from Dock Road, the car park has 247 parking spaces. Pedestrian access to the building is either via Dock Road or from the riverside walk.
- 6.5.9 The site is adjacent to the Council's existing ownership on Chatham Waterfront, which includes the Old Gun Wharf building and Blacksmith's Shop (the majority of which is now Chatham library) and a public car park.
- 6.5.10 The GVA Grimley reports attached indicates that the building provides value for money.
- 6.5.11 In addition, the building may offer some development potential as set out in the attached report. However, there are no plans to pursue such development.
- 6.5.12 Thorough surveys and investigations have been undertaken on the building. These confirm that it is fit for purpose, although some refurbishment is required. In order to bring the building up to standard as a public facility, the Council would need to carry out some adaptations. These include work to ensure we could comply with our duties under the Disability Discrimination Act, at a total of £330,000. In addition, substantial electrical and ICT work is necessary to the building to ensure that it meets the Council's networking standards. The costs of essential ICT works are £1.6 million with lighting and other works at £2.77 million. This brings a total cost of the adaptations to £4.7 million.
- 6.5.13 Gun Wharf contains 247 car parking spaces. In addition, the Council is able to rent further spaces, which would bring the total car parking spaces to 565, against the 683 spaces currently available. However a number of staff bring their car to work as they have a need to travel between the buildings. In addition, there is an opportunity to explore

park and ride and other more environmentally friendly transport options.

6.5.14 The total running cost of Gun Wharf is estimated to be £1.9 million per annum. This can be compared with the £2.8 million for the existing buildings, as set out at Exempt Appendix 2.

Rent

6.5.15 There are limited options for taking a lease of another premises. Details are provided within the exempt report.

7. Disposal of Existing Buildings

7.1 In order to locate our administrative functions to one site, it would be necessary to sell the following buildings:-

- Civic Centre, Strood
- Municipal Buildings, Gillingham

It would also mean that the Council needs to assign its leasehold interest in the Compass Centre and Kingsley House, and grant a lease of Riverside One.

7.2 Officers have had preliminary discussions with the University College for the Creative Arts who have expressed an interest in taking the Compass Centre, and this would have the benefit of consolidating all four universities within Medway in the Universities at Medway campus. Alongside the new Mid Kent College, this would mean a student population of around 15,000.

7.3 There are some minor covenants affecting the main part of the Municipal Building site, but not any that would affect development of that site.

7.4 Within the emerging Local Development Framework the Civic Centre complex is allocated for mixed-use residential development. The site's regeneration is also a key component within the Council's waterfront strategy.

7.5 The Council's lease of Kingsley House expires in 2012 and prior to that date it could either be assigned or sub-let. Since the demand for office space in Gillingham is limited, officers will explore the opportunities for its use by other public sector bodies including the NHS Mental Health Trust, who currently occupy half the building.

8. Options for Council Chamber

- 8.1 Any disposal of Municipal Buildings would mean that a Council Chamber would have to be accommodated in another of the council buildings, or alternatively that the Council would need to hire space for Council meetings.
- 8.2 The Council chamber has an approximate space requirement of 2,150 sq. feet, and this space would need to be flexible in order to use the space for other purposes. A council chamber layout should not therefore be permanent as it currently is in Municipal Buildings, as it takes up valuable office space. Seating and acoustic arrangements can now be provided in such a way that they can be stacked and removed to allow a better use of space.
- 8.3 Gun Wharf does not provide a suitable area for a council chamber, due to the position of the columns within the floor space. The column grid is 7.2m centres and this would not give a clear space for members and officers at full council meetings.
- 8.4 An option is to hold the full Council meetings in the St. Georges Centre. The St. Georges Centre is a former church which was acquired by Gillingham Borough Council in 1995. It is a splendid grade II listed building of brick and stone construction used as a naval memorial church, and is currently held by the council as a hall for hire. It gets a very limited amount of useage in the evenings, and represents an opportunity to use a beautiful building with a true sense of history for an appropriate civic purpose.
- 8.5 The use of the centre for council meetings will enable St George's to become a venue that members of the community will aspire to use, as well as to provide an important role and purpose for this beautiful building. It has a suitable amount of parking for members (approximately 60 spaces) and improvements to the toilets and servery area would allow greater public use of the centre for functions in addition to council meetings.
- 8.6 Any use of the St. Georges Centre would need to be truly flexible to ensure that public useage was maximized, and the costings take into account the cost of flexible furniture and improvements needed to both the toilet and servery area, and acoustics system.
- 8.7 Members allocated £100,000 as part of their budget priorities to carry out works to the St. Georges Centre. These works would be creating a new toilet block. The additional budget allocated in this report would allow for further work to upgrade the servery, and this in turn will allow the centre to attract a higher proportion of lettings as it will broaden its ability to be used for other purposes.

9. Financial evaluation

9.1 The option analysis above leads to a conclusion that the two key options to evaluate are remaining in our existing buildings (status quo) and Gun Wharf.

9.2 Comparison of running costs

9.2.1 Exempt Appendix 2 sets out a simple comparison of the running costs of Gun Wharf, compared to the running costs of the existing four buildings. Residual costs at the Civic Centre have been included in order to ensure that when the services such as Archives and Customer First section are relocated that a revenue budget is available. It can be seen from the table that the running cost of Gun Wharf is £1.9 million compared to the status quo, which is £2.8m. These figures are based on 2007/08 prices, and the annual revenue saving is around £944,000. They include the cost of purchasing additional staff parking as set out in the exempt report.

9.2.2 Exempt Appendix 2 does not include the costs for the backlog maintenance requirements of the existing buildings, which amount to approximately £4 million. Whilst the statutory inspections that the Council must carry out on its buildings (PMA's) will still be necessary for Gun Wharf, there will be a reduction in costs as only one building would need to be inspected. There is also an assumption that the repair costs of Gun Wharf will be considerably less than for the status quo, as a significant amount of work will be carried out prior to our occupation of the building.

9.3 Analysis of transitional and financing costs

The exempt report (table 2a) shows a summary of transitional costs. These are the additional costs the Council will incur as a result of purchasing Gun Wharf, until it is able to dispose of all four properties. Until that time, the Council will be incurring some costs for leaving the buildings vacant.

It can be seen that in the first year transitional costs are very high, but these quickly reduce as offices are vacated and disposed of. These figures are based on 2007/08 prices.

In summary, the full transitional costs are shown in the exempt report, but it can be seen that the total annual transitional costs are as follows:-

Table 2a Summary of Transitional Costs

Description	Transitional 2007/08	Transitional 2008/09	Transitional 2009/10	Transitional 2010/11
	£	£	£	£
Total Transitional Costs	1,587,543	181,623	(55,600)	0

Table 2b shows the financing costs over the initial years. This is the charges that the Council will have to pay for taking out a loan to purchase Gun Wharf.

Table 2b Summary Finance Costs

	£
2007/08	945,870
2008/09	1,207,808
2009/10	1,106,570
2010/11	389,482
2011/12	382,360
2012/13	375,238
2013/14	368,117

Capital receipts from the sale of Municipal Buildings and Civic Centre would be used to nominally repay the majority of the loan and thereby the annual costs reduce dramatically.

These figures also assume that the Council is using the LGR (Local Government Reorganisation) debt financing to pay towards the loan charges. The LGR debt financing arises from the set up costs of Medway Council in 1998. The Council was allowed to borrow for set up costs such as conversion of buildings, infrastructure such as ICT etc, and the money to repay the borrowing has been put into the base budget each year. The Council will have repaid this borrowing from 2009/10 onwards, and therefore has the LGR debt financing available in the budget to contribute towards Gun Wharf with the full cost of some £2.4 million available from 2012/13. A summary of the amounts available is set out below in Table 2c:-

Table 2c LGR Financing Available

	£
2007/08	0
2008/09	0
2009/10	(623,999)
2010/11	(1,502,284)
2011/12	(2,195,855)
2012/13	(2,427,014)
2013/14	(2,429,234)

Exempt appendices 3, 3a and 4 summarise the effect of these cost transactions over the period 2007/08 to 2013/14.

9.3 Indirect costs savings

There are significant efficiency savings that would be arise from locating all administrative staff in one building. Officers, and in particular senior officers, spend a significant amount of time travelling between the two buildings, and this journey can take up to thirty minutes each way, depending on traffic. Whilst the majority of officers do not claim travel expenses for making journeys between offices, they are entitled to do so. In addition, there is a large amount of time lost by officers needing to travel between all four buildings. This is estimated at up to £0.2 million per annum with the bulk of this being increased productivity as a result of officers not spending time travelling, rather than cash gain as a result of fewer travel claims.

9.5 Worst case scenario

Exempt Appendix 4 shows the summary of costs in the assumed worst case scenario. This is built on the assumption that the Council will suffer a delay in assigning the leases at Kingsley and Compass until 31 March 2010 but stills gains the receipts from the sale of the Civic and Municipal sites by that time.

The rent payable under the leases of the two properties is currently £0.8 million per annum. In addition the Council would be responsible for NNDR and security / utilities costs, which could total a further £0.3million per annum.

This could be mitigated in part by a sub-letting of the properties. By 2010/11 the combination of operating costs savings and release of LGR financing could cover the annual deficit. This would have an effect on the balance of general reserves, which is the money that the Council has set aside to cover unforeseen costs. The exempt appendix shows in the cumulative cost/saving line that the Council would have to commit some £3.5 million from its reserves to the end of 2009/10, and would not have repaid this sum back to reserves until 2011/12.

Failure to vacate and dispose of Municipal buildings will add £0.5million per annum to operating costs, and failure to realise proceeds from the sale of both the Civic Centre and Municipal buildings would add around £0.84 million per annum to operating costs from 2010/11.

9. **Risk analysis**

- 9.1 The project as set out is not without risks both practical and political. These are summarized as:

- A key facet in the project is the opportunity to offset the capital cost by the proceeds from the development potential for the Civic Centre, Strood and Municipal Buildings. Every effort will need to be made to maximize the receipt from these sites and the speed with which that can be realized. This may, of course, not be a mutually compatible strategy in that the disposal may need to be linked to the other developments in the area to maximize receipt and this may not present the quickest return.
- Although extensive preliminary work has been done to survey requirements, the costs of acquisition and adaptation will need to be firmed up and budgets rigorously adhered to. Mitigation by agreeing costs and budgets and effective project management should ensure both a timely and budget conscious occupation;
- The restrictions on space require a commitment to make best available use of floor areas and this will impact upon staff and could also jeopardise the ensuing property rationalization. Effective communication with staff that emphasizes benefits including new furniture and modern communication kit, together with the use of flexible working can both mitigate and enhance the benefit to staff;
- The relocation of the organization on such a scale will pose a significant risk to the delivery of services over the transitional period covering the various moves. This risk will be mitigated by effective project planning and management;
- The relocation of staff from the Civic Centre may have a detrimental effect upon the local economy of Strood pending the redevelopment of the Strood site. To some extent this will be mitigated by the other development in the area such as Rochester and Strood Riverside and Temple Waterfront. However there will be a need to ensure that plans are communicated effectively to the local community and there will need to be consideration given to the on-going presence in Strood.
- The project involves a considerable outlay of funds and there is a potential for this to be construed as not being in the public interest. The communication strategy will play a significant part in mitigating this risk but the more crucial factor will be the necessity of demonstrating the financial rewards of the move.

10. Conclusion

It is considered that relocating the administrative functions to Gun Wharf would deliver the following benefits:-

- Reduce the annual revenue costs of running the four current buildings from £2.8 million to £1.9 million from 2010/11. By 2013/14 the project will have generated total revenue savings of £9.8 million. This will in turn allow the Council to reinvest in the delivery of front-line services to the public.

- Locating to one site will act as a catalyst for a larger scale property review. This will allow the Council to undertake a comprehensive review of its existing property assets, and to rationalise the portfolio, to ensure that operational buildings are fit for purpose. It will enable us to co-locate services where it is appropriate to do so, and to identify underperforming properties. It will also mean additional capital receipts could be realised by freeing up assets that are surplus to requirements.
- The property review will enable us to support our customer focused services by relocating some public facing services to areas that are more aligned with their customer base – for example, by moving housing staff to Twydall, where we have a large housing stock.
- Vacating the Civic Centre site would enable its disposal and redevelopment for a mixed-use housing scheme, conforming to emerging proposals for the site outlined in the Local Development Framework. The site extends to some 7.5 acres (excluding the Jane’s Creek site) and could accommodate over 300 residential units in addition to other complementary uses. With its superb riverside location and its views of the castle and cathedral, it would make a significant contribution to the delivery of the Council’s waterfront strategy and the regeneration of Strood.
- Locating administrative services in one civic building will establish a focal point for Medway Council’s services and will provide a more cohesive organisation. It will also reduce the cost of unproductive travel between buildings both in terms of lost time and the amount of mileage claims submitted in respect of this. A staff consultation process clearly identified that in addition to this, staff believe that the current multiple site occupancy hinders communication and encourages a silo mentality.
- Provides a civic heart for Medway to be proud of. Increased numbers of staff should add to the economic vitality of Chatham. It will also be a boost to the existing development plans for this retail centre. In addition, the possibility of development on the existing Civic site will be a regeneration opportunity and economic boost for Strood.

11. Financial and legal implications

11.1 These are set out in the main body of the report.

12. Recommendations

That the Cabinet recommend to full Council that:-

- (1) the purchase of Gun Wharf be completed on the terms set out in the exempt report

- (2) that a capital budget, as set out in the exempt report, be allocated to enable the Council to move its administrative functions into Gun Wharf and that the excess revenue costs for the project are funded from reserves
- (3) that Municipal Buildings, Gillingham and Civic Centre, Strood be declared surplus and the Chief Executive, in consultation with the Leader of the Council, be authorised to dispose of these properties as soon as possible.

13. Suggested reasons for decision(s)

The purchase of Gun Wharf will deliver the benefits set out in section 10 of this report.

Background Papers:

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