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| Subject: | Hove Town Hall, South End, Office Option | | |
| Date of Meeting: | 11 July 2014 | | |
| Report of: | Executive Director Finance & Resources | | |
| Contact Officer: | Name: | Angela Dymott | Tel: 29-1450 |
| | Email: | Angela.dymott@brighton-hove.gov.uk | |
| Ward(s) affected: | All | | |

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 Policy & Resources Committee on 12th September 2013 approved the implementation of Workstyles Phase 3, which takes forward the roll out of flexible working within the council and its partners and incorporates the refurbishment of Hove Town Hall to allow the re-location of staff and services from Kings House and other periphery buildings.
- 1.2 The Committee granted delegated authority to the Executive Director Finance & Resources to commence appropriate engagement and communications and to implement the works which includes commencing negotiations on approximately 25% of surplus space in the south end of Hove Town Hall on commercial terms to be negotiated by the Valuer and Head of Legal Services.
- 1.3 This report outlines an alternative proposal for this area, namely the conversion of the first floor spaces into an office which could be occupied by other external public or private service organisations that have potential synergies with existing council services to promote collaborative working.

2. RECOMMENDATIONS:

- 2.1 That Policy & Resources Committee approve the refurbishment of the south end of Hove Town Hall as specified in paragraph 3.5 of this report.
- 2.2 That the Executive Director Finance & Resources be granted delegated authority:
 - (i) to commence appropriate engagement and negotiations with potential service providers and organisations, in relation to the proposed refurbishment referred to in paragraph 2.1 above; and
 - (ii) to grant leases to such service providers and organisations on such terms as the Director considers appropriate

3 CONTEXT/ BACKGROUND INFORMATION

- 3.1 Policy & Resources Committee of 12th September 2013 was presented with three options in the report *Modernising The Council - Workstyles Phase 3*, and approved the business case for Option A.
- 3.2 Option A of that report detailed proposals to dispose of the freehold of Kings House, the potential granting of long lease disposals in respect of 76-79 and 80 Buckingham Road and the disposal of surplus areas of Hove Town Hall (The Great Hall at first and second floor levels, and areas at ground floor level facing Church Road) for commercial use on terms to be negotiated by the Valuer and Head of Legal Services.
- 3.3 The report also approved the refurbishment of Hove Town Hall to accommodate the re-located staff which would enable flexible working and make better use of existing underused central circulation spaces and reception areas, convert the banqueting suite and associated spaces into meeting rooms and hot desks, construct a small extension at roof level on the north side and replacement of the existing single glazed curtain walling system with a modern energy efficient double glazed system.
- 3.4 The refurbishment of Hove Town Hall combined with the recently vacated and refurbished third floor at Bartholomew House, created under Workstyles Phase 2, would provide sufficient accommodation for all staff mainly in Kings House to move into Hove Town Hall in 2016.
- 3.5 This report proposes an alternative option whereby the council would convert the surplus first and second floor space (Great Hall) into an independent office space which could be rented out to private sector or other public organisations who might wish to co-locate and benefit from synergies with other council run services. This conversion would be funded from rental income received and is an alternative to disposal and conversion of the space by a private commercial developer. Details of the outline business can be found in the financial implications
- 3.6 Design work for the main Hove Town Hall refurbishment is now well advanced in order to meet the programmed start on site date of January 2015. The capital cost of the proposals outlined in this report would therefore benefit from an economy of scale should the two projects be undertaken at the same time.
- 3.7 The scope of works needed to convert the Great Hall would take approximately 12 months requiring a start around Easter 2015 in order to complete in the summer of 2016. Design work, including a further planning application, therefore needs to be commenced in August 2014.
- 3.8 The layout of the Great Hall allows for an independent entrance point off Tisbury Road, which would access two principal levels which can be subdivided as follows:
 - First Floor (main Hall level): Either used as one open plan office or subdivided into smaller spaces, with the potential for a double height public reception /waiting area

- Second/Mezzanine Floors: Converted to a single user occupied space (this would require a new mezzanine floor over part of the Great Hall area)
- 3.9 The Brighton & Hove Clinical Commissioning Group (CCG) who currently occupy an expensive leased building in the centre of Brighton will be looking to find alternative accommodation if they exercise an imminent lease break. CCG and the council see great benefits in co-locating to enhance the synergies and collaborative working in Social Care and Health teams that will ultimately be re-located in Hove Town Hall following completion of the renovations in 2016.
- 3.10 The Citizens Advice Bureau (CAB) currently located in part of the ground floor space of Hove Town Hall will be directly affected by these changes as it is proposed that the ground floor area will be disposed of for retail/restaurant use. The council is currently exploring re-location options with the CAB which could include use of this part of the site.
- 3.11 The proposal could also create potential savings for council services and other organisation/s working with the council helping to unlock costs within the City.

4 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 Policy & Resources Committee on 12th September 2013 approved the option of disposing of this surplus accommodation for conversion by a commercial organisation.
- 4.2 Doing nothing is not an option as the accommodation is surplus to the Council's requirements and were it not developed would be vacant under-used space with on-going building revenue and maintenance costs and liabilities in this prime location.

5 COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 Early discussions have taken place with CCG, the Citizens Advice Bureau and other public sector organisations and relevant internal teams.
- 5.2 Public consultations through the local authority planning process will be carried out through the relevant services.

6. CONCLUSION

- 6.1 Having reviewed the risks of achieving a commercial use for the upper floors of the south end of Hove Town Hall and having explored other options for this area, it is recommended that the council refurbishes the area for serviced offices that could be rented out either to external or public, voluntary and community sectors. The business model would use the council's borrowing powers to fund the capital works and ensure that the rental income received plus service costs will cover the borrowing to achieve a cost neutral funded model.

7. FINANCIAL & OTHER IMPLICATIONS:

7.1 Financial Implications:

The proposed investment plans are in addition to the Workstyles Phase 3 plans approved by this committee in September 2013. The September committee was presented with an option appraisal for 3 options and approved option A which included a refurbishment of Hove Town Hall and the release of this quarter of the south end of the building for commercial use. If the proposal within this report had been factored into the options appraisal this would have reinforced the business case for option A as it improves the overall financial viability.

The total net cost of construction is estimated at £2,638,000 to be funded through borrowing. The estimate is on the basis that the Council will undertake the development itself and would therefore avoid the cost of developers profit and higher fees that would be incurred should a private developer acquire the site. The construction cost includes efficiencies from undertaking the work at the same time as the Workstyles Phase 3 works at Hove Town Hall. The borrowing would be financed over a 20-year period which is similar to borrowing periods for previous Workstyles projects. The financing costs would amount to approximately £210,000 per annum and would be met from a combination of revenue generated from rental income and increased levels of Business Rates associated with the new development.

The construction costs are based on providing a 'shell and core' fit out and any internal fit outs would have to be funded separately by the tenants. The assumed rents take this into account, however, if the council were to provide fully fitted out offices this would result in higher rents.

The assumed rents for the offices are based upon current market rates and are within the financial range of the proposed occupiers. These rents and service charge would be subject to further negotiation depending on the final specifications of the offices provided.

The ground floor commercial element is projected to provide £140,000 income pa, the offices are projected to provide a total of £150,000 per annum assuming 100% occupancy, and additional retained Business Rates is estimated to generate £45,000 per annum. The net income when financing costs and income already factored into the Phase 3 business plan have been taken into account is estimated to be £95,000 per annum. There may be a requirement to fund a shortfall in the first two years of operation subject to the negotiation of rent free period and void periods associated with the new offices. The project is estimated to provide a positive Net Present Value of £1.4m over the 20-year period.

There are financial risks with this proposal. Construction costs could escalate through delays in the timetable currently set to coincide with the Phase 3 works which could result in missed cost efficiencies. There is also the potential for rising construction costs. These risks are mitigated through stringent project management and the delivery of the project through the Council's Construction Strategic Partnership.

There is a risk of failure to deliver rental income from the ground floor commercial space however the market evidence shows this location will attract commercial interest such as restaurants or a local supermarket.

There is also a risk of failure to deliver rental income from the office spaces on the first and second floors. The office space has the potential to be sub-divided to incorporate more private sector or public organisations of varying sizes in the event that CCG and CAB were not to occupy these offices. The proposal overall currently delivers a surplus based on 100% occupancy however assuming the commercial space is fully occupied, the occupancy rate for the office space could drop to 60% and the project would still break-even.

Finance Officer Consulted: Name: Rob Allen

Date: 11/06/14

7.2 Legal Implications:

Section 1 of the Local Government Act 2003 permits the council to borrow money for any purpose relevant to its functions; or for the purposes of the prudent management of its financial affairs. The borrowing of money for the purposes set out in this report comes within the scope of this provision.

The granting of any lease must be on terms certified by the council's valuer to be the best consideration reasonably obtainable.

Lawyer Consulted:

Oliver Dixon

Date: 19/06/14

7.3 Equalities Implications:

The new offices would be fully accessible with provision of new accessible toilets for staff and customers.

7.4 Sustainability Implications:

Currently these services are located in different locations across the city and so bringing them together into one space would reduce customer journeys and help reduce the service running costs. The proposed location is adjacent to the City's primary bus routes.

The building works would incorporate the latest energy efficient lights and water saving devices and the heating system would be upgraded to improve energy efficiency. The existing single glazed windows would also be replaced with double glazed units.

SUPPORTING DOCUMENTATION

Appendices:

1. Other Implications

Crime & Disorder Implications:

- 1.1 None Identified

Risk and Opportunity Management Implications:

- 1.2 The proposal would be subject to a planning application. Discussions are yet to take place with the planners. Further discussions are required with the various organisations to agree the terms of any leases. The building works would be covered under the CDM (Construction & Design Management Regulations) and there would be a dedicated Risk Register.

Public Health Implications:

- 1.3 None Identified

Corporate / Citywide Implications:

- 1.4 Effective use of the south end of Hove Town Hall fits with the corporate plan ambition to 'Demonstrably making best use of all resources, seeking to become a self-sustaining organisation serving its customers well', and the priority to 'modernise the council'. This proposal would demonstrate best use of the buildings resource of Hove Town Hall and seeks to deliver best value for money. The provision of office space for the uses described in this report would strengthen the Councils commitment to work in partnership with other service providers.