

SALISBURY: BOURNE HILL OFFICE PROJECT

Executive Summary

The Implementation Executive resolved on 22nd May 2008 to receive further information to assist with the decision on whether to continue with the current scheme for building offices at Bourne Hill, Salisbury. This report considers the scheme in relation to the needs of the Unitary Authority and looks at the option to stop the scheme. The financial estimates provided in this report are preliminary and may not represent the outturn cost, however they provide a basis for comparison of the options.

Proposal

The Implementation Executive is requested to consider the implications of various options outlined in this report and discuss the way forward in relation to the Bourne Hill Office Project.

Reason for Proposal

This project is about to reach a significant milestone on 3rd June 2008, when the Deed of Variation to build the revised scheme is to be authorised.

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Purpose of Report

1. To provide Members with further information regarding the options on whether to continue with the current scheme for Bourne Hill.

Background

2. The Implementation Executive considered the previous report on 22nd May 2008 regarding the suitability of the current scheme in relation to the needs of One Council for Wiltshire, and resolved:

- “(a) To instruct the Chief Executive to explore what further options are available in relation to the Bourne Hill Office project including the costs and risks associated with those options compared with the option of proceeding with the current redesigned scheme.*
- (b) To agree that this report should include clarification concerning the capitalisation of costs.*
- (c) To formally request Salisbury District Council to explore with the contractor for the current redesigned scheme the possibility of extending the period of time to allow for further discussions concerning the scheme.*
- (d) To agree to hold a special meeting of the Implementation Executive on 2 June 2008 at 4.00pm to be held in Salisbury to consider the report referred to in (a) above”.*

Main Considerations for the Implementation Executive

3. The accommodation needs of the One Council for Wiltshire within the Salisbury area were explained at the last meeting of the Implementation Executive. Basically there is a need to replace and centralise operational spaces as well as up to 550 workstations from current unsuitable buildings at various locations in the city. The current Bourne Hill Office project can accommodate up to 250 workstations.

4. It has not been possible to assess the exact accommodation needs in Salisbury within the short time available to compile this report. However, the costs for the three options listed in **Table 1** represent the best possible analysis in the time available and the scale of costs difference in continuing with the current scheme or not.
5. The three overall alternatives at this present line for co-locating some 690 staff of the new organisation is as follows:
 - Option 1: Complete the current scheme at Bourne Hill and centralise the remainder of services at a second location at Old Sarum.
 - Option 2: Stop the current scheme, refurbish the Council House to accommodate limited number of services, and co-locate majority of the services at Old Sarum.
 - Option 3: Stop the current scheme, refurbish the Council House for disposal, and co-locate all services at Old Sarum.
6. It can be seen from **Table 1** that the option to dispose of the whole of Bourne Hill site and co-locate all services in one building (Option 3) has the least cost. This would be some £2.5m less than the cost of proceeding with the current Salisbury District Council (SDC) scheme and co-locating the remainder of staff in a separate building (Option 1). On the other hand delivery of Option 3 carries higher levels of risks particularly in relation to obtaining planning permission, but also in terms of cost certainty. It is important to understand the risks in terms of deliverability as well as the comparability of cost which are reflected in the risk matrices in **Appendix A1**.
7. Advice on planning matters in relation to locating an office building on County Council owned land at Old Sarum has been provided by SDC's Head of Development Service and is included in **Appendix A**. It predicts that the existence of an extant consent at Bourne Hill may be an obstacle as part of the sequential test which should rule out available sites in the city centre and edge of the city, before Old Sarum can be selected for development. Although this advice can only be tested by submission of an application, nevertheless it should be considered at this stage as a major risk to delivery of the office building at Sarum.
8. In terms of financial value for money, the options offer extremely uncompetitive rates for office accommodation. Although some of the cost can be attributed to unavoidable cost of maintenance backlog of the Council House, other significant factors are:
 - Original business case established for District Council needs only.
 - Long delays and late change of scope.
 - Choice of location.

NEW WILTSHIRE COUNCIL – OFFICE RATIONALISATION IN SALISBURY (TABLE 1)

EXPENDITURE		Option 1	Option 2	Option 3
Description		Current Bourne Hill Project (250 desks) Sarum (300 desks)	Refurb Bourne Hill (50 desks) Sarum (500 desks)	Refurb & sell Bourne Hill Sarum (550 desks)
Sites for Disposal (See Part 2 App.B)		1 to 9 inclusive 12 to 14 inclusive	1 to 9 inclusive 12 to 14 inclusive	1 to 14 inclusive
Acquisitions		Sarum	Sarum	Sarum
		<u>£</u>	<u>£</u>	<u>£</u>
Land Costs		1,200,000	1,200,000	1,200,000
Sunk Costs		-	6,000,000	6,000,000
Build Costs	Bourne Hill	20,100,000	3,900,000 + 10%	3,900,000 + 10%
	Sarum	14,000,000 + 10%	21,200,000 + 10%	23,000,000 + 10%
TOTAL EXPENDITURE		36,700,000	34,800,000	36,800,000
Receipts		8,780,000	8,780,000	11,530,000
Net Funding		27,920,000	26,000,000	25,270,000

* See **Appendix A1** for options risk analysis.

9. It can be seen that any attempt at this stage to reduce costs by stopping the current scheme, can only achieve relatively small savings whilst increasing delivery risks and uncertainties in outturn costs. Should the Members decide to continue with the current scheme, then there may be scope in increasing the density of workstations and staff/desk ratio to increase value for money.

10. In terms of economic and social aspects of the options, the advantages and disadvantages of a central location versus others, links to established policies regarding regeneration and development, and their influence on the standards of service delivery to the public need further investigation. Members should be aware that the business sector in Salisbury has expressed their concern in relation to any plan to re-locate the offices of local authority to out-of-centre locations. Their main concerns relate to loss of expenditure by local government staff and visitors in the centre, and loss of status as the centre of governance for the city, and the effects of these on the local economy.

Risk Assessment

11. See **Appendix A1**.

Financial Implications

12. At the time of writing this report it has not been possible to produce a definitive financial analysis of the options due to time constraints and incomplete information.
13. The comparative costings of the 3 options have been appraised and from a gross cash flow view give a reasonable comparative analysis of the options.
14. WCC have taken advice relating to the major financing issues, which are:-
 - (a) The treatment of the abortive capital costs estimated at approx £6m under Option 2 & 3. It is important to appreciate that £4.8m has been funded from capital receipts (see (ii) below).
 - (b) The treatment of the balance of value of the asset between the build cost of £20.1m and a possible valuation of the property. The difference may well be in excess of £6m.
15. The implications of the potential accounting treatment of these balances could have a serious effect on Council Tax and on the “opportunity costs” to be used in any NPV calculations. These alternatives are subject to further discussion with WCC’s professional advisors and external auditor (KPMG).
16. The following is a summary of the possible treatment for the abortive capital costs (sunk costs):-
 - (i) That the abortive costs as a result of the cancellation of a capital project should be written off to the General Fund Balance, OR
 - (ii) that having set aside the capital receipts in good faith it would be inequitable to reverse the charge. This is subject to legal advice and if supportable would eventually lead to a charge to the capital adjustment account without effect to Council Tax.
17. WCC’s professional advisors have indicated that if abortive costs are charged to the general fund then the capital receipts used originally would be reinstated.
18. The final decision about the accounting treatment of abortive costs will have to be validated by both councils’ external auditors. KPMG have been asked to consider the alternatives in paragraph 16 above and discuss the issue with the SDC’s auditors.

19. A second issue is the treatment of any difference between the total build costs of a project and the market value of the building once the works are completed. Oral advice from KPMG to WCC is that the difference between build costs and the value of the building will have to be treated as an 'impairment' and become a charge to the general fund either on the day the asset becomes operational or earlier in exceptional circumstances.
20. SDC's professional advice is that capitalisation is appropriate, KPMG have been asked for their opinion on this advice. SDC's auditors were involved in the Council's July 2007 Bourne Hill decision to proceed with the contract and they have not raised it as an issue.
21. The Wiltshire Council will require office accommodation in Salisbury so any financial risk affects all 3 options in regards to risk assessments for the "Sarum" property. So the financial implications of the new Unitary Council Salisbury office are not a determining factor in considering the options in this report.
22. Until the Unitary Council completes a full property strategy other funding options and opportunities cannot be quantified to see if they could contribute to the financing costs of all 3 options.
23. WCC are still seeking clarification on the deliverability of some of the identified savings of £0.75m in staffing costs stated in the previous report. These savings were calculated on the basis of a completely centralised SDC, which would now not be the case.
24. In summary the options and costings in table provide a comparative analysis of the potential cash flows of the 3 options in this paper. The impact of the decision on the revenue and capital resources of the Councils is still subject to clarification. However in summary if the abortive costs and the impairment value of the options selected have to be charged to revenue the Councils are looking at a revenue charge of between £6m for abortive costs and a number in excess of £6m dependant of the valuation of the refurbished Bourne Hill property. (For example if build costs were £20m and the valuation were £10m the charge to revenue for impairment would be £10m.)

Legal Implications

25. Both WCC and SDC agree that the Implementation Executive has the responsibility of preparing for and facilitating the economic, effective, efficient and timely transfer of the District Councils' functions, property, rights and liabilities. It is within the power of the Implementation Executive to express a view on a proposal and to recommend that a particular course of action be adopted. Where WCC and SDC views diverge is the extent to which the IE can direct a particular course of action. SDC have sought the opinion of leading Counsel which advises that the Secretary of State power of direction does not cover this contract. The Solicitor to the County Council has not sought further advice.

26. Whether or not the IE has power of direction is, it is suggested, largely academic. The Solicitor to the County Council would not recommend that, in the event of a difference of opinion in this case, the matter should be referred to litigation. The likely timescale for resolution and the cost to the Council tax payer would make such a course of action inadvisable.
27. SDC has obtained professional advice from Counsel to confirm the powers of the Implementation Executive. This has confirmed SDC's views that the Implementation Executive does not have powers to direct SDC.
28. SDC accepts its duty to co-operate and hence it should have regard to the views of the Implementation Executive. However SDC needs to balance the weight it gives to these views against other legal duties and its fiduciary duty to the Council tax payer.

Contractor

29. SDC entered into a binding contract on 27th April 2007. This date was before the Council was aware of any LGR decision and hence any future legal duties of an Implementation Executive.
30. Within the terms of the binding contract, SDC agreed with its contractors to modify the scheme. The agreement was to 'agree' the start date and other specific matters on or before 3rd June 2008. After this date, the contractor has the right to terminate and claim compensation and costs.
31. The implications of any termination would place SDC in a situation of "*technical bankruptcy*" if a Section 114 Notice was served on SDC due to inadequate funds.
32. At its meeting on 22nd May 2008, the Implementation Executive requested SDC to explore with the contractor an extension of time. WCC officers also asked that SDC assess the contractor's willingness to continue should the Implementation Executive decide not to support continuation of the existing scheme.
33. At the time of writing, SDC has been exploring the possibility of an extension of time, negotiations are ongoing and an oral update can be given at the meeting. The contractor did not give any explicit views on the second question.

Conclusion

34. SDC wishes to stress that both its Councillors and Officers consider their duty to co-operate as an important role. SDC has devoted considerable officer resources to provide information requested and seek clarification of its legal duties, including dialogue with its contractor.
35. The information available on alternative options and other professional advice has been balanced against their primary obligation to SDC and its taxpayers.

36. Therefore the Chief Executive of SDC will be advising her Councillors that the Council must proceed with the Bourne Hill contract within the current contractual terms.
37. The Chief Executive of WCC would draw the Executive's attention to several key factors which are highlighted in this report, viz.,
- costs of approx. £6m have been incurred and must be funded under any of the identified options
 - the Bourne Hill building is high status, in poor condition, and unsuitable for modern office use: hence any option for that building involves relatively high costs
 - this in turn raises issues about the capitalisation of the costs, as it could be argued that expenditure above the eventual value of the asset should not be capitalised and hence should be funded from revenue: this is a matter of debate between the two Councils and their respective auditors, and it could have serious consequences for the Wiltshire Council's budget
 - SDC's preferred option was developed before the Order was made establishing the new Wiltshire Council
 - in the time available it has not been possible to construct a business case for alternative options reflecting the new situation. Although options have been identified, at this stage they have significant risks and uncertainty
 - the stance of the contractor remains unclear
 - the locus of the Implementation Executive in this matter is disputed, and that dispute cannot be resolved swiftly

and in the light of all these factors the Chief Executive would recommend that the Implementation Executive does not request SDC to reconsider its decision regarding the contract for the Bourne Hill project.

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The following unpublished documents have been relied on in the preparation of this Report:

None

Appendices: Appendix A: Letter from Stephen Thorne, Salisbury District Council
Appendix A1: New WCC Rationalisation in Salisbury - Risk Matrices
Appendix B: Anticipated Receipts
Appendix C: Building Cost Estimates