

**IMPLEMENTATION EXECUTIVE
22 MAY 2008**

SALISBURY: BOURNE HILL OFFICE PROJECT

Executive Summary

The Bourne Hill Office Project is regarded as a significant investment for the new Unitary Authority. Therefore the County Council commissioned a review of the status of Bourne Hill Office Project to examine the scope for meeting the property needs of the new Unitary Authority. The report concludes that due to cost and time constraints at this stage, the project to build the revised scheme should continue. It also suggests that refurbishing the Council House without building the extension would provide the new Authority with greater flexibility when adopting any office rationalisation strategy in Wiltshire. However, this option needs to be developed further before it is considered as a viable alternative.

Proposal

The Implementation Executive is requested to consider the options in the report in **Appendix A**, and:

either: Approve to continue with the current redesigned scheme

or: Instruct the Chief Executive to further explore the option to only refurbish the existing Council House, and plan for an alternative centralised office.

For the latter option and in view of the potential urgency in decision making process and difficulties in calling together a full meeting, Implementation Executive is asked to establish a Sub-Committee to consider further matters.

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. Under the Wiltshire (Structural Change) Order 2008, this project is referred to the Implementation Executive as a transition function.

GEORGE BATTEN
Director of Environmental Services

DR. CARLTON BRAND
Director of Resources

**IMPLEMENTATION EXECUTIVE
22 MAY 2008**

SALISBURY: BOURNE HILL OFFICE PROJECT

Purpose of Report

1. To inform the Implementation Executive of the current status of the project and the review of options on how to progress this scheme.

Background

2. The Bourne Hill Office Project was started by Salisbury District Council (SDC) to centralise all services from various offices in one building. After decanting services into temporary office accommodation and awarding the contract for building works in April 2007, the project was stopped and a new scheme with a reduced footprint was selected. The planning application for the new scheme is due to be considered by the Council's Planning Committee on 15th May 2008 and the Deed of Variation to the building contract is due to be authorised by 3rd June 2008.
3. The County Council has started a review of all its properties to find opportunities for reducing running costs and maintenance backlog through rationalisation. The review is expanded to cover properties used by all five Councils in Wiltshire. Mace Limited, a company with experience in this field, has been appointed to conduct this review. Following the Directive to advise Members of the Implementation Executive in relation to any significant contract and property issues, Mace Limited were asked to review the project at Bourne Hill in relation to the needs of the new Unitary Council.

Main Considerations for the Implementation Executive

4. The report containing the findings of the review is included in **Appendix A**. The review has considered the following options:
 - (i) Revert to the Original Scheme Design - Dismissed as it is against the emerging rationalisation strategy for the new Council's offices.
 - (ii) Continue with the Redesigned Scheme - Recommended as the option to progress.
 - (iii) Cancel the project - Dismissed on financial and planning reasons in relation to the listed building.
 - (iv) Refurbish the existing Council House - Can be an option subject to further investigation and resolving financial and planning issues.

- (v) Suspend Works - Will incur further costs, to buy time and refine the scheme.

Therefore the report by Mace Limited recommends to proceed with the current redesign scheme. However, it suggests that the refurbishment of the Council House on its own should be further explored.

5. The report also contains a series of recommendations regarding re-valuation of assets due for disposal, considering the sub-letting of some or all of the new building, and review of location for customer contact area. These recommendations can be built into the project if the Implementation Executive is minded to continue with the current scheme.

Risk Assessment

6. Risk Assessment is addressed through existing project management controls. The risks to the Unitary Authority are covered under **Appendix 1** of the attached report at **Appendix A**.

Financial Implications

7. The Unitary Council status may provide more flexibility in funding the options. However according to Mace, of the 5 different options, only the current truncated revised scheme and the option to only refurbish the Council House are feasible and therefore the financial implications of the others have not been considered in this statement.
8. Mace Limited have identified project costs within their report but have not considered the funding implications of the options which are explored here.
9. Ideally more detailed financial appraisals of the options would be presented. However, the extent of the analysis has been limited by the time available to complete this report. Furthermore, the scale of potential call upon revenue under option to only refurbish the Council House means that decision will need to include consideration of funding and not just traditional investment appraisal methods such as net present value analysis.

Option – Continue with Current Revised Scheme

10. At this time the following are the summary project costs as identified in the Mace Limited report:

Costs incurred to detailed design	= 1.90m	Already funded from capital receipts 2006-07
-----------------------------------	---------	--

Costs incurred post detailed design	= 2.75m	Funded from capital reserve in 2007-08
-------------------------------------	---------	--

Cost to complete project estimated	= 16.24m	To be funded
------------------------------------	----------	--------------

<u>TOTAL</u>	<u>= 20.89m</u>	
--------------	-----------------	--

11. Of the balance to be funded SDC intend to fund £3.9 million by using capital receipts and £0.950 million from 5 years of projected maintenance costs for the Council House. The balance would be funded through prudential borrowing. A further £2.75 million of borrowing is required to fund other capital expenditure projects in the SDC Capital Programme due to the redeployment of capital reserves to Bourne Hill. Effectively the use of capital reserves can be viewed as temporary funding with borrowing of a full £14.09 million required under this option.
12. If funded from unsupported borrowing it is reasonable to assume that the annualised cost to revenue will be circa £0.950 million per annum.
13. The Business Case from SDC identified annual revenue savings of £0.750 million to offset against this cost of borrowing, leaving a gap to be funded from the revenue budget of £0.200 million per annum.

14. *RISKS*

- (i) Identified saving of £0.750 million is made up of several parts:-

	£
Staff efficiency savings	= 400,000
Energy savings	= 63,000
Repairs & maintenance	= 162,000
Rental savings	= 100,000
New rent from WCC – registrars	= 25,000

- (ii) There are still some questions concerning the deliverability of some of the above as real cashable savings that could be redeployed to meet financing costs. The staff reductions are due to reduced headcount due to centralisation and also through productivity savings with less travelling time of staff.
- (iii) From a unitary perspective, there is a need to ensure that efficiency savings are not double counted in any business case relating specifically to Bourne Hill and more widely in the 1C4W proposed property rationalisation savings within the submission.
- (iv) The valuation of the capital receipts may be lower than anticipated due to current market conditions and potential litigation relating to the “Village Green Application” concerning the swimming pool.
- (v) Some concern exists as to whether the maintenance backlog of £0.950 million relates to an actual budget and is therefore a realisable income stream to offset against capital expenditure. Further work is required to clarify this and if it is not realisable then this will need to be funded from further prudential borrowing.

- (vi) It has not been possible to obtain an estimated valuation of Bourne Hill Office after the redesign is carried out. If this is significantly lower than the costs incurred, as a very rough estimate based on office rentals would suggest then there could be issues either over capitalising all of the expenditure or over incurring an impairment in the asset value when the unitary authority undertakes its first valuation and has to write down the difference. A conclusion cannot be drawn on this unless further work on valuations is undertaken.

Option – Refurbish Council House Without Extension

15. There are several facets to this alternative and time is required to be certain as to the absolute effect of each aspect.
16. SDC received expert advice from Butlers, which unequivocally stated that the costs thus incurred would not be able to remain as capital expenditure but re-specified under “aborted capital project” and charged against revenue reserves in the year in which a decision to abort was made.
17. As per the previous option a total of £4.65 million has been spent to date. Additionally a minimum of £1.35 million should be budgeted for further costs to cessation. With a total of £6 million SDC were unable to accept this as a charge to revenue as it had insufficient revenue budget and balances and so would render the Council effectively bankrupt.
18. Assuming this advice still stands, the only option for capitalising would be through a capitalisation directive from Government which SDC were advised would not be forthcoming and therefore is not worth pursuing.
19. Therefore the full £6 million would need to be funded from revenue through in year redeployment of budgets or revenue balances.
20. It is worth noting, however, that the £4.65 million is already spent and capitalised and for the decrease in revenue there would be an equal and opposite increase of £4.65 million of capital resources to redeploy of which £2.75 million could be used to reinstate the capital reserves and avoid borrowing for other schemes as mentioned above, leaving £1.9 million for other purposes.
21. *Risks*
- (i) SDC are not in a position to meet a £6 million call upon revenue resources. To pursue this option, the unitary authority would need to provide funding from across the five existing authorities and further analysis is required on how this could be achieved.
- (ii) The Mace report suggests that a further £2 million is required to make good the Council House with a further £1 million should be allowed to meet fees, external works costs, planning obligations, etc. **It is stressed that this is not a full project cost and a whole life costing analysis would need to be undertaken with more detailed costing analysis.**

- (iii) Any costs incurred on this refurbishment would be capital and could be offset by the £1.9 million of restated capital resources above. Any balance would need to be met from unsupported borrowing and financing costs met from the revenue budget. However, if the property could then be sold the capital receipt from sale could be used to repay the borrowing and avoid future borrowing costs. An estimate of the valuation of the property after refurbishment has not been obtained but would be relevant to any decision to pursue this option and work to establish this is recommended.
- (iv) Under this option there is still a need to house the SDC staff who would under Option 1 return to Bourne Hill. These costs are currently provided for in the SDC budget as the staff are already decanted to other properties. The release of this cost is shown in Option 1 as savings of rentals of £100,000, however this needs to be confirmed. Remaining in these properties would not meet the strategic objectives of the Council in the long term but work would establish if this is a suitable position for the short term until an alternative unitary solution, which meets the authority's business needs, can be delivered.

Both Options

- 22. The savings of £0.750 million identified by SDC to fund unsupported borrowing costs are based on property rationalisation and centralisation of staff that are not unique to Bourne Hill option. It should therefore be noted that options exist to release these through alternative property proposals, including the WCC option for Salisbury. These could provide better value for money and work to explore this should be undertaken to ensure that Bourne Hill provides best value. Such work would include the ability to utilise the £3.95 million of capital receipts currently earmarked for Bourne Hill under the first option that would no longer be required under Option 2 if staff were relocated elsewhere. Alternative options have not yet been developed to draw valid conclusions on this as the options considered by SDC in 2005 have been superseded by the unitary position and the enlarged asset base and combined needs of the new authority.
- 23. Under any option, it is important that receipts from disposals are maximised, and therefore further work may be needed to ensure the anticipated receipt from sale of the Swimming Pool site is fully realised.

Legal Implications

- 24. Until such time as the village green is determined uncertainty remains about the swimming pool site. The final determination of that application could adversely impact upon the value of the site. This may not be determined until the end of this year.

25. The Solicitor to the County Council is clarifying with the District Council the current contractual situation between Salisbury District Council and the developer. He will advise Implementation Executive following receipt of the relevant information.

Options Considered

26. The report at **Appendix A** contains the full option appraisal at this stage of the project.

Conclusion

27. The report on option appraisal carried out by Mace Limited concludes that because of financial and time constraints, the current revised scheme should continue. However, it suggests that the alternative to only refurbish the Council House may be a viable option, subject to further analysis of financial and planning issues.

GEORGE BATTEN
Director of Environmental Services

DR. CARLTON BRAND
Director of Resources

Report Author
Parvis Khansari
Assistant Director, Major Projects
Tel No: 713340
Date: 13.05.08

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

Appendices:

Appendix A - Report from Mace Limited
Appendix B - Salisbury District Council Report